

FINANCIAL TIMES

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WORLD NEWS

Police move bodies after Colorado high school killings

Police began moving bodies from Columbine High School in the US city of Denver yesterday after a massacre which left 15 people dead, including two suspects who are believed to have killed themselves. Attorney general Janet Reno said stricter gun laws were only part of the solution to recent school violence. US, Page 3; Editorial Comment, Page 11

Parliament snubs Yeltsin
Russia's upper house snubbed President Boris Yeltsin by again refusing to accept the resignation of the law officer investigating alleged Kremlin corruption. Europe, Page 3

Japanese racketeer fined
Japanese racketeer Ryuchi Koike was fined ¥80m (\$5.8m) and jailed for extortion. He had admitted taking pay-offs. Asia-Pacific, Page 6

Court reviews disability act
The US Supreme Court began reviewing the Americans with Disabilities Act, a law still ill-defined 10 years after its passage. US and Canada, Page 3

East Timor ceasefire breached
Five youths were reported killed by pro-Indonesian militia in East Timor only hours after the signing of a truce aimed at halting violence. Earlier report, Asia-Pacific, Page 6; Editorial Comment, Page 11

Iranian deputies target liberal
Conservative Iranian deputies called for the impeachment of moderate culture minister Ataollah Mohajerani, whom they accuse of failing to uphold Islamic and revolutionary values. International, Page 4

Earnings rise in Britain
UK earnings have grown and employment has risen, according to new figures. UK, Page 7

Ukraine's president criticises left
Leonid Kuchma, Ukraine's reformist president, accused parliament of blocking reforms and turning into a leftwing platform.

Jamaica flight cancelled after riots
British Airways cancelled a flight to Jamaica because of riots on the Caribbean island, where at least five have died in protests against fuel price rises. Background, Page 3

Korean strikes spread
South Korean labour unrest worsened as shipyard workers and academics joined protest strikes against mass lay-offs.

Hong Kong bans dissidents
Hong Kong refused entry to 11 prominent Chinese dissidents, including Wang Dan and Wei Jingsheng, who wanted to attend a May pro-democracy seminar.

S Korea chiefs may face charges
South Korea's financial watchdog recommended charging the heads of two Hyundai subsidiaries with insider dealing. Asia-Pacific, Page 6

US move angers defence groups
Canada's defence industry is up in arms over US export control changes that end Canada's long-standing exemption from certain export licensing requirements. International, Page 4

BUSINESS NEWS

Telecom Italia set to back deal with Deutsche Telekom

Telecom Italia board members were last night poised to seal final approval of the terms of the company's proposed merger with Deutsche Telekom but were struggling to iron out last-minute difficulties. Companies and Markets, Page 13; Lex, Page 12; Keeping above the fray, Page 11

British Telecommunications and AT&T of the US are expected to speculation by announcing they are to take a 30 per cent stake in Japan Telecom, the country's second largest fixed network operator. Companies and Markets, Page 13

Coca-Cola, soft drinks giant, saw its shares inch up in early Wall Street trading after first quarter sales proved less bleak than predicted. Companies and Markets, Page 13

Merrill Lynch, US investment bank, revealed its Japanese retail brokerage - set up last year - posted a loss of ¥25bn (\$212m) in its first nine months. Companies and Markets, Page 13

New York Mercantile Exchange, largest energy futures market in the world, and Germany's Deutsche Börse, are to launch Germany's first energy exchange. Companies and Markets, Page 13

Boon, US energy giant, was hopeful the recent rebound in oil prices from last year's slide would signal a turnaround after suffering a 44 per cent decline in first quarter net income. American Companies, Page 14

McDonalds, Pizza Hut and Burger King fast food chains have all adjusted their wage rates substantially in line with the introduction of the UK's national minimum wage. UK news, Page 7

Swissair signed a contract with Garuda Indonesia that will help save the Far East carrier \$11.55m in maintenance costs and investment. Asia-Pacific Companies, Page 17

Central European Media Enterprises, Nasdaq-quoted television group, and Vladimir Zeleny, licence holder of its Czech Nova TV, appeared to be backing down over a row that threatened to stop CME broadcasting in its most profitable market. Europe Companies, Page 16

Goodyear Tyre & Rubber blamed heavy restructuring charges for a sharp fall in first-quarter profits to \$25.5m after tax, compared with \$175.8m a year earlier. American Companies, Page 14

Cable and Wireless, UK telecoms group, raised its offer for IDC, the Japanese international telecoms carrier, in a bid to woo leading shareholders away from a rival offer by NTT. Asia-Pacific Companies, Page 17

Euro Markets
News, analysis and commentary on the euro currency zone, covering foreign exchange, bond and equity markets. Page 18

New trade row looms as EU threatens to ban all US beef

By Michael Smith in Brussels and Nancy Dunne in Washington

The European Union yesterday laid plans to ban all beef imported from the US from mid-June, raising the temperature in the latest transatlantic trade dispute.

The EU announced the threatened ban after its veterinary experts found hormone residues in meat certified as hormone-free. The EU and US are already at loggerheads over the EU's existing 10-year ban on hormone-treated beef. The World Trade Organisation says that ban violates world trade rules because it is not supported by scientific evidence that the beef could damage health.

If unresolved, the stand-off could dwarf the dispute between

the two trade partners over bananas.

Dan Glickman, US agriculture secretary, yesterday called for the EU to lift the ban on hormone-treated beef in the light of the findings of the veterinary experts.

Mr Glickman said decades of scientific tests had found no health risk from consuming meat from cattle with hormones at the levels detected by the EU samples.

"Europe seems to be moving in a decidedly wrong direction with respect to US beef imports of any type," said Charlene Barshefsky, US trade representative.

The timing of this announcement is obviously suspect."

The EU has until May 13 to comply with the WTO ruling and has ordered 17 studies to try to

strengthen its argument that a ban on hormone-treated beef is needed because the hormones pose a risk to human health.

Veterinary experts conducting a study found that 12 per cent of "hormone-free" US beef examined had hormone residues.

The EU imports about 7,000 tonnes of hormone-free US beef a year - worth \$20m. Last year the vets took 200 samples from a selection of the 10 US abattoirs from which beef is exported.

A total ban was endorsed yesterday by the 20-member European Commission, the EU's executive. Formal approval is needed from the EU standing veterinary committee.

The Commission said it had delayed implementation of the ban until June 15 to give the EU and US a chance to find a solu-

tion. With the help of an EU inspection team already in the US, the Commission said it would try to establish how hormones ended up in the beef.

Meanwhile, the Commission said it would ask member states to tighten checks.

Ann Soli, of the National Cattlemen's Beef Association in the US, said that producers submitted applications to the EU for the hormone-free cattle programme. "If they find problems, the EU must examine their own controls and deal with the suppliers themselves."

Separately the commission decided not to appeal against a recent WTO ruling that its banana import regime favouring former British and French colonies was incompatible with world trade rules.

Japan banks discreetly selling art collections

By Gillian Tett in Tokyo

Loss-making Japanese banks are tapping their vast art collections in an attempt to boost their financial strength.

Several have quietly started to sell some of the works collected in the 1980s boom, in response to the government's efforts to clean up the sector.

Fukuoka City Bank, a regional group, confirmed that it was selling part of its collection to the San Francisco Museum of Modern Art. Dealers believe the sale will raise about \$60m - one of the largest disposals of artworks by a single Japanese bank in recent years.

Lake, the failed consumer finance group, is selling a collection worth more than \$900m, and dealers say more deals are being discussed as the shake-out of the financial sector gathers pace.

Tristram Norris, a Tokyo-based investment adviser at Pilkington Investments, said: "I think this is the start of the trend. I know of around another eight deals in the pipeline."

The sales are a humiliating blow for corporate Japan, which paid record sums to collect the artworks during the 1980s when the economy was booming and Japan wanted to demonstrate its global strength.

Most banks have been determined to keep the art collections secret in recent years, particularly since the value of the paintings has dropped sharply. However, dealers such as Pilkington believe Japanese companies and individuals hold around \$30bn worth of art, with a significant part held by the banks in their own collections or as collateral from failed borrowers.

Unloading this treasure will take years, dealers say, because banks will be reluctant to record large public losses on their purchases - although the government has changed accounting laws to make it easier for banks to sell art held as collateral.

Prices paid for modern and impressionist paintings have improved in the last two to three years and art experts are hoping that this should bring Japan's hidden art collections back into the public view, as well as creating new business for dealers. "I think there is a great opportunity here," said Mr Norris.

Moscow in move to end crisis in Kosovo

By Our International Staff

Russia is launching a new diplomatic initiative to solve the crisis over Kosovo as the US and Britain discuss the use of ground troops after the present campaign of air strikes on Yugoslavia.

Viktor Chernomyrdin, the former prime minister appointed as Moscow's special envoy to Yugoslavia, is likely to fly to Belgrade today to put forward fresh proposals to end the conflict and introduce multinational peace-keeping forces.

US president Bill Clinton and Tony Blair, the British prime minister, were due last night to seek a common position on the use of land forces in Kosovo during a White House meeting before this week's Nato summit.

Mr Blair stepped up efforts to involve Russia, which opposes Nato's air strikes, in solving the Kosovo crisis by telling Russian NTV television he hoped soon to meet Mr Chernomyrdin. Mr Blair said: "The appointment of Mr Chernomyrdin is a sign that Russia wants to and can play a part in resolving this issue and I very much hope he is able to play a part in this."

The possible introduction of ground forces into Kosovo looked certain to dominate the Nato summit. A US official said Gen-

eral Wesley Clark, Nato's supreme commander, may seek authorisation to update a study carried out last autumn on deployment of ground troops.

Mr Blair's office said it remained confident the air campaign would be successful but Nato leaders needed to discuss what happened in the longer term. "Once the objectives are met, we have got to be in a position to pick up the pieces," Mr Blair's spokesman said.

In spite of a growing feeling among military analysts that a ground offensive will be needed to end the resistance of Serb forces in Kosovo, Spain and Italy yesterday expressed reservations.

Spain said the United Nations Security Council should determine what kind of international presence there should be. Eduardo Serra, defence minister, said Spain would support a ground operation if that was what Nato decided, but preferred to wait to see if air strikes achieved their objectives.

Massimo D'Alema, Italy's prime minister, said he hoped Nato would not send ground troops. He told a newspaper in Milan: "A ground war would be a dramatic move unless there was a UN mandate."

Nato warns Serbia, Page 2



A pall of smoke rises from the headquarters of President Slobodan Milosevic's Socialist party offices in Belgrade yesterday after Nato missiles struck the building during the night. The statue in the foreground is known as 'The Victor', marking victory in the second world war. Picture: AP

Italy plans to securitise social security arrears

By Edward Luca in London and James Nitz in Rome

The Italian government has devised a new way to plug its budget deficit with plans to issue £8,000bn (£15.5bn) (\$4.4bn) of bonds backed by unpaid social security contributions.

The move would reduce Italy's fiscal deficit by 0.5 per cent of gross domestic product - a vital step if the government is to keep within the Maastricht criteria for the single currency.

It would also mark the first occasion a European government has securitised so-called "delinquent" payments to boost current revenues, and is likely to have a strong impact on Europe's rapidly growing bond markets.

Under the plan, Italy's social security body, the INPS, would offload the risk of full repayment of the arrears. The repaid debt would service the interest payments on the bond.

Under a standard transaction of this type, the assets would be sold at a discount to persuade investors to take on the risk.

Each year, INPS receives social security contributions from Italian employers and employees and pays benefits to retired people and the unemployed.

However, INPS has consistently incurred a large deficit

during this process, partly because some workers and companies have evaded contribution payments and partly because Italian pensions are generous by European standards.

To make up the deficit, the Treasury annually transfers sums to INPS. This new measure, which is already accounted for in the government's budget forecasts, means that the treasury can reduce transfers to INPS.

Although European governments have securitised future income streams in the past, these have been small and have not involved tax or social security arrears.

However, others are thought to be planning to follow Italy's lead. Spain is hoping to securitise future electricity surcharge payments that were imposed to pay for the decommissioning of its nuclear industry.

"This is a very good off-balance sheet way of boosting current revenues or paying down current debt," said a senior official at an international credit rating agency.

"But you still have to pay the bills in the end. It only postpones those payments."

Warburg Dillon Read, Morgan Stanley and DMI San Paolo have been appointed as advisers on the deal.

WORLD MARKETS

| STOCK MARKET INDICES | |
|-----------------------|-----------|
| New York Composite | 8,148.81 |
| Dow Jones Ind Av | 10,498.81 |
| NASDAQ Composite | 2,453.35 |
| Europe and Far East | |
| CAC40 | 4,291.80 |
| DAX | 3,165.28 |
| FTSE 100 | 6,111.0 |
| FTSE Europe 300 | 1,283.36 |
| Nikkei | 6,485.02 |
| US LISTED RATES | |
| Federal Funds | 5.50% |
| 3-mth Treas Bill: Yld | 4.35% |
| Long Bond | 5.0% |
| Yield | 5.51% |
| OTHER RATES | |
| UK 5-mth Interbank | 5.5% |
| UK 10-yr Gilt | 110.75 |
| Euro Euro | 2.801% |
| Germany: 10 yr Bund | 58.47 |
| Japan: 10 yr JGB | 108.74 |
| NORTH SEA OIL (Brent) | 15.00 |
| Crude Oil | 16.00 |

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| Euro-zone target price £2.15. Prices in local currency in about | |
|---|--------|
| Germany | 100.00 |
| France | 100.00 |
| Italy | 100.00 |
| Spain | 100.00 |
| UK | 100.00 |
| US | 100.00 |
| Japan | 100.00 |
| South Korea | 100.00 |
| China | 100.00 |
| Hong Kong | 100.00 |
| Taiwan | 100.00 |
| Singapore | 100.00 |
| Malaysia | 100.00 |
| Indonesia | 100.00 |
| Philippines | 100.00 |
| Thailand | 100.00 |
| Vietnam | 100.00 |
| Laos | 100.00 |
| Myanmar | 100.00 |
| Burma | 100.00 |
| Sierra Leone | 100.00 |
| Liberia | 100.00 |
| Ivory Coast | 100.00 |
| Ghana | 100.00 |
| Senegal | 100.00 |
| Gambia | 100.00 |
| Guinea | 100.00 |
| Sierra Leone | 100.00 |
| Liberia | 100.00 |
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£322,000,000

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Dynacast International

Global manufacturer of precision engineered components

Led and arranged by

Cinven

Equity provided by Cinven Funds

Debt facilities arranged by Westdeutsche Landesbank

Cinven The vital component

Cinven Limited is regulated by DFR

WORLD NEWS

KOSOVO CRISIS

WAR IN EUROPE FEARS GROW OF WIDER BALKANS WAR ■ NATO URGED TO CHANGE TACTICS ■ MONTENEGRO'S PRESIDENT REFUSES TO BOW TO BELGRADE ■ ECONOMIC DAMAGE ASSESSED

Nato warns Serbia might provoke wider Balkans war

By Our International Staff

Nato yesterday warned that Slobodan Milosevic, the Serb leader, might try to disrupt the alliance's 50th anniversary celebrations by attempting to turn the Kosovo conflict into a wider Balkan war.

The warning came following reports of incidents involving Serb forces on the borders of Montenegro, Albania and Croatia and a request for Nato security guarantees from Bulgaria. Bulgaria yesterday indicated

it might join Romania in accepting a Nato request for use of its airspace for attacks against Yugoslavia. Meanwhile, Slovakia, which opened its airspace to Nato two weeks ago, agreed to open road and rail links to the alliance.

As well as the danger to neighbouring countries, Nato is concerned Serbia might use the alliance's 50th anniversary as an occasion to increase assaults within Kosovo and to stage anti-Nato demonstrations around the world.

"We have to be on our guard," said Jamie Shea, Nato spokesman. "We will be vigilant towards any attempt to try to create out of a domestic crisis an international crisis. We have stopped that thus far and will continue to stop it."

Nato said a series of recent incidents had provoked alarm. One was the Yugoslav army's attempt to bring under its control the police in Montenegro, Serbia's partner in the Yugoslav federation. This was seen as a possible step by Mr Milosevic

towards taking control of Montenegro, which has refused to join Serbia's war against Nato.

However, it was not clear how far Yugoslav army commanders, whose troops include Montenegrins, would pursue a strategy which might risk civil war in Montenegro.

The United Nations was also yesterday investigating complaints from Croatia about an incursion by up to 300 Serbian troops into a UN-monitored demilitarised zone in the disputed Prevlaka

peninsula, between Croatia and Montenegro.

Nato reiterated concern about Serb forces spreading ethnic cleansing against Albanians into Montenegro and about fighting on the Kosovo-Albanian border. On Tuesday Serb forces shelled Albanian territory and some 200 Serb troops briefly crossed the frontier, according to Nato.

These incidents occurred as neighbouring countries agreed to help the alliance. Romania agreed on Tuesday to a Nato request to open an

air corridor for bombers, subject to parliamentary approval. Belgrade warned that this would breach a bilateral treaty.

Meanwhile, Ivan Kostov, Bulgarian prime minister, met Javier Solana, Nato secretary-general, in Brussels yesterday to discuss a similar request to Bulgaria. Mr Kostov suggested Bulgaria would open its airspace if it received the same Nato security guarantees given to other neighbouring countries such as Albania.

Meanwhile, further evidence emerged in Macedonia of crisis-induced instability. Kiro Gligorov, president, called for a state of emergency to help deal with rising tensions between the country's Albanian community, swelled by 130,000 refugees, and the majority Slavs. Two French Nato soldiers were injured yesterday and their vehicle set on fire in an anti-Nato protest.

In Belgrade, there was no indication Mr Milosevic was preparing to give way to Nato.

Sources close to the gov-

ernment said he was pursuing his long-established strategy of fomenting crises to reinforce his authority. Some hardliners within the regime even want Nato to launch a ground war in the belief that this will strengthen old-guard Communists in Russia, who have long backed Mr Milosevic. "This is like the final battle of the Cold War," said one Belgrade analyst.

By Neil Buckley in Brussels, Guy Dinmore in Belgrade, Matej Vipotnik in Skopje and Stefan Wagstyl in London

Needed: freedom in air, men on ground

Military experts say Nato will achieve its objectives only if the political constraints that have allowed just limited and mixed successes so far are eased, writes Alexander Nicoll

Nato will need to begin preparations for a ground offensive and order pilots to fly at lower levels if it is to achieve its objectives in Kosovo, many military experts believe.

The alliance has had only mixed success in four weeks of efforts to eliminate air defences, attack military infrastructure throughout Yugoslavia and target Serbian forces in Kosovo.

Nato commanders and officials said from the start the air campaign would take a long time and warned against expecting quick results.

But experts believe General Wesley Clark, Nato's supreme commander, has been hamstrung by a number of political constraints.

Because Nato's political leaders hoped a quick show of force would be enough to persuade Mr Milosevic to sue for peace - and because they

were unsure of domestic support - the alliance did not assemble nearly enough aircraft and was unprepared for a long campaign.

"In four weeks, there have been about 8,000 (aircraft) sorties, compared with 108,000 in six weeks during the Gulf war," says Andrew Brookes, air analyst at the London-based International Institute for Strategic Studies.

For political reasons - fear of fracturing the alliance and of not carrying public opinion, especially in the US - Nato ruled out a ground offensive, preparing only for eventual insertion of a peacekeeping force. This removed a vital element of threat and surprise. "It was a disaster to say you would never introduce ground troops," says one former senior officer.

At least initially, political leaders micro-managed the campaign by vetting lists of

targets to be hit.

Nato commanders have been given exceptionally strict rules on not risking casualties among their own pilots - again partly for political reasons - and civilians in Yugoslavia, so that they have avoided low-level flying and have often either diverted bombs in flight or decided not to drop them.

As a result of these constraints and poor weather, Nato has not yet succeeded in its first objective of eliminating air defences. Partly because Slobodan Milosevic, Yugoslav president, conserved his arsenal of surface-to-air missiles, there are thought to be many left, especially man-portable systems. "There is a complete air defence system out there built on the mobile phone," says Mr Brookes.

Caution about air defences has contributed to a low-risk strategy in targeting Serb forces in Kosovo, with pilots

Chronology of Nato's air campaign in Kosovo

Mar 24: Nato orders air strikes against Yugoslav forces.
Mar 26: Serb forces shell and burn ethnic Albanian villages in Kosovo.
Mar 27: American F-117A Stealth fighter crashes near Belgrade.
Mar 28: Thousands of ethnic Albanians flee Kosovo. Nato intensifies bombing campaign, targeting Serb forces in and around Kosovo.

Mar 30: Nato rejects peace deal brokered by Yugoslav Prime Minister, Slobodan Milosevic, Yugoslav president.
Apr 1: Three captured US servicemen are shown on Serbian television.
Apr 3: Nato cruise missiles hit centre of Belgrade.
Apr 5: Nato hits Yugoslav air defence headquarters in Belgrade.

Apr 6: Nato dismisses unilateral ceasefire declaration by Yugoslavia.
Apr 7: Nato spells out 5-point conditions for ending air strikes:
• Verifiable cessation of all combat activities and killings.
• Withdrawal of military, police and paramilitary forces from Kosovo.
• Acceptance of international security force.
• Unconditional return of all refugees and displaced persons to humanitarian aid.

Apr 21: First batch of 24 US Apache helicopters arrives in Albania.
Apr 22: Thousands of refugees forced to leave a border camp by the Macedonian government.
Apr 23: Nato bombs Zastava car plant in Serbia.
Apr 24: Nato admits it hit a passenger train in Serbia.
Apr 25: Nato aircraft hit vehicles on a road in Kosovo, killing refugees.
Apr 26: Helicopters drop supplies in response to renewed ethnic cleansing.



operating above 15,000 feet, at which level they can see little with the naked eye.

The account given in Brussels on Monday by US Brigadier-General Dan Leaf revealed how many checks are made before aircraft are cleared to attack - in spite of which civilian vehicles were apparently hit with laser-guided bombs in the April 14 incident he was describing.

According to retired senior officers, pilots will need to fly at lower level to "get in amongst" Serb forces, knocking out tanks and eventually causing considerable damage to Serb forces and slowly restricting their movement.

Pilots needed to operate a "cab-rank" system of attack-

ing targets when they appear. "I'm not sure that the campaign has really gathered the momentum needed to inflict significant losses," one officer says.

"I suspect that the results on the ground in Kosovo are probably disappointing," says Rear Admiral Richard Cobbold, director of the Royal United Services Institute, a London-based think-tank.

Most experts believe the air campaign, especially if given more resources and freedom, would eventually cause considerable damage to Serb forces and slowly restrict their movement. It could dramatically reduce the Serbian will to

resist if big losses were inflicted on the army and special police - Mr Milosevic's power base - and on the country's general infrastructure such as power stations and television networks. "For them to be able to have rock concerts is ludicrous," says Mr Brookes.

But the experts believe a ground offensive will still be necessary to secure Kosovo, and that leaders should sanction preparations if only to pose new potential threats to Mr Milosevic.

Nobody with military experience underestimates the challenges of mounting such an offensive, given the terrain and the ease with which Serbian defenders

could inflict large casualties in mountain passes.

There are few ports and airports in the region through which troops and equipment could be brought in, and they are already overcrowded. Supplies would be a problem.

However, military experts are not advocating an immediate invasion - which in any case would be impossible as it would take at least two months to prepare. The air campaign would still have some way to go in "softening up" Serbian forces before a ground offensive.

In fact, a creep towards ground forces may have begun with the introduction

FT INTERVIEW MILO DJUKANOVIC

Montenegro to defy Milosevic's challenge

By Kevin Done, East Europe Correspondent, in Podgorica

Milo Djukanovic, the 37-year-old president of Montenegro, still refuses to blink as he defiantly stares down the challenge of Yugoslav President Slobodan Milosevic, which has brought his diminutive land to the brink of civil war.

Mr Milosevic has remorselessly tightened the screw on Montenegro this week, as he seeks to bring Serbia's only remaining partner in the Federal Republic of Yugoslavia to heel.

On Monday night the newly appointed hardline commander of the Yugoslav Second Army in Montenegro, General Miroslav Obradovic, delivered a letter to the Montenegrin government demanding that the republic's 10,000 strong police force be placed under direct military command.

On Tuesday morning the Montenegrin Ministry of the Interior delivered its response. "The reply was that the idea was unacceptable," said Mr Djukanovic in an interview with the Financial Times in his presidential office. "It is out of the question that the Ministry of the Interior can be subordinated

to the Yugoslav Army."

Within hours Gen Obradovic increased the tension by bringing army units to Montenegro's only border crossing with Croatia with the demand that the police forces hand over control. The police stood firm awaiting further instructions from the Interior Ministry in nearby Podgorica.

"At this moment the police were controlling Dobri Brijeg (the border post). Evidently the Yugoslav Army has an ambition to take over this role, but their intention is one thing, our policy is quite another," said Mr Djukanovic. "Our policy is that the border between Montenegro and Croatia should be controlled by ourselves and the forces of the Ministry of the Interior. This will remain so."

The location of the border crossing could hardly be closer to the town of Herceg Novi and the Bay of Kotor, the headquarters of the Yugoslav fleet.

Events in Montenegro are unfolding at increasing speed as the republic seeks to stay out of the war between Belgrade and Nato, but is caught between sporadic Nato airstrikes, "a creeping coup by Serbia" in

the words of one senior government official, and now the threat of a Nato blockade to stop oil coming in through the port of Bar.

Montenegro considers that the federal government is illegal because of its repeated violations of the federal constitution. Of his adversary in Belgrade Mr Djukanovic says: "What we have here is a permanent attempt by Mr Milosevic to destabilise Montenegro and to overthrow the government by force."

"He is using the situation of war that came about from his policies, and he is using the pretext of the defence of the country, to manipulate the army into effectively taking over government from the civil authorities."

"Like any other dictator Mr Milosevic does not care a bit about institutions. He destroys institutions to ensure that in the constitutional and legal rubble there should be nothing left but his uncontrolled power."

Events in Montenegro are unfolding at increasing speed as the republic seeks to stay out of the war between Belgrade and Nato, but is caught between sporadic Nato airstrikes, "a creeping coup by Serbia" in



Djukanovic: ambition is to preserve peace in Montenegro Reuters

Djukanovic insists that "it is not realistic to expect that Mr Milosevic can succeed". And he warned that "at this point the survival of the existence of Federal Yugoslavia is very much being threatened".

"The Montenegrin president, who became prime minister of Montenegro in 1991 at only 29, was formerly an ally of Belgrade during the collapse of former Yugoslavia. But in recent years he has taken Montenegro along a strongly pro-western, reformist path, challenging Belgrade's hegemony, especially since taking office as president in January 1998.

"My ambition is to preserve the peace and build Montenegro into an open democratic society, economically prosperous and integrated in Europe, and to preserve its multi-ethnic

character." If that could be achieved in the Federal Yugoslavia he would fully support the federation, he said. If Serbia had a different view of the federation "we shall have to look for another path, but this is not the moment for such crucial decisions".

A large minority of the Montenegrin population still identifies closely with Belgrade led by the Socialist People's party (SNP) of Momir Bulatovic, Mr Djukanovic's former mentor, who was ousted by him as Montenegrin president barely 18 months ago.

Pro-Belgrade demonstrations in Podgorica have been growing in size in the face of intensified Nato bombing. As the brinkmanship continues the latest protest against Nato is planned to take place in Podgorica today.

France caught between two conflicting needs

By Robert Graham in Paris

France is an uneasy team player at the best of times, always convinced of the rectitude of its own position.

But as the crisis in Kosovo continues France is caught between two conflicting needs. France is the largest contributor to the offensive against the US and is as fully committed to success as any other member of Nato.

Yet at the same time politicians on both the left and right are profoundly wary of France being so closely involved in a military venture that is US-dominated and orchestrated through Nato.

France's entire post-war military strategy and foreign policy agenda has been shaped around striking a distance from Washington. Yet France now finds itself fielding a sizeable contingent of more than 70 aircraft and being asked each week for greater military involvement when it is still formally set against full integration in Nato's military structure.

Faced with these contradictions both President Jacques Chirac, who has taken charge of the Kosovo conflict, and the Jospin government are pursuing a policy that allows France to be a team player yet hold a distinct voice.

For domestic consumption,

the French authorities emphasise their ability to influence or even block Nato decisions which the French public regards as too heavily influenced by the Americans.

For instance the presidential: entourage leaked to Liberation last Saturday their view that France had an effective veto on the choice of Nato targets. The report cited a French veto on the bombing of a power station because it also supplied electricity to Macedonia, and on the bombing of the antennae of Belgrade Television because of the proximity of foreign journalists.

This version of events has found little echo at Nato headquarters in Brussels, where a joint approach to targeting is emphasised. At the presidential palace the veto idea has subsequently been played down. Such incidents underline the difficult tightrope France has chosen to walk. It furthermore allows France to become an easy target for those in Nato who doubt the reliability of Paris.

But senior French officials dismiss these doubts insisting Paris is fully aware serious divisions would undermine the alliance's war effort and must be avoided. The true differences between France and Nato are likely to emerge less over military objectives and

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ECONOMIC DAMAGE COUNTRIES AFFECTED BY CONFLICT WILL NEED AT LEAST \$10BN TO COPE

IMF and World Bank assess impact

By Robert Chote in Washington, Stefan Wagstyl in London

Countries affected by the fighting in Kosovo may require loans from the World Bank and International Monetary Fund in excess of \$10bn, to help them cope with the economic impact, according to preliminary estimates by the two institutions.

Michel Camdessus, managing director of the IMF, said his officials were working on the likely impact of the Kosovo crisis "very actively and with great anxiety". He said Fund and Bank staff had prepared a joint paper for the executive board, but this was "an extremely provisional first outline". The

financial impact depended crucially on how long the conflict continued, he said.

Mr Camdessus did not give any details of what could be done. But officials said it was likely that Bulgaria, Romania, Albania and Macedonia would need loans of at least \$10bn to help them cope with the cost of humanitarian assistance and the disruption to trade caused by the fighting. Serbia and Montenegro are not members of the international institutions and therefore ineligible for help.

Officials believe much of the finance for the reconstruction of industrial infrastructure is likely to be available through export credit guarantees, with Italian companies expected

to play a key role. EU and other industrialised donor nations yesterday pledged \$275m of balance of payments assistance for Bulgaria this year and promised more support should the

Bulgaria, Romania, Albania and Macedonia likely to need loans

war in Kosovo continue.

The commitment by 22 donor countries was additional to \$440m already promised by the World Bank and IMF, and brought pledges of balance of payments support to \$715m for 1999. About \$100m pledged yesterday was to cover the

three years to end-2001. That sum would rise by \$300m-\$400m if the Kosovo war lasted to the end of this year.

Separately, the IMF yesterday agreed in principle to grant a \$500m standby credit to Romania in a move which will help Bucharest avert a

much-feared default on its foreign debt this year.

The agreement, subject to approval by the IMF board, seems to have been completed sooner than expected because of concern about the economic impact of the Kosovo crisis. It will pave the way to the release of a \$250m World Bank and other bilateral loan programmes.

Mr Camdessus said finance ministers would discuss the impact of the Kosovo conflict in a meeting of the Fund's "interim committee" next Tuesday.

Other topics for discussion will include the world economic outlook, debt relief for poor countries and reforms to the architecture of the international financial system.

Nato strikes at president's HQ

Nato blasted the party headquarters of Slobodan Milosevic, Yugoslav president, yesterday, report agencies.

At least one Nato missile slammed into Mr Milosevic's Serbian Socialist party office in Belgrade, sending flames roaring through the 22-storey building that also houses a television station run by his daughter Marija.

The Yugoslav news agency Tanjug said Nato missiles killed at least 10 people at a camp in western Kosovo housing several hundred Serb refugees from Croatia. Sources at Nato headquarters in Brussels said that with the Belgrade attack the alliance was attempting to bring its four-week-old air campaign closer to those

responsible for the mass expulsion of ethnic Albanians from Kosovo. "It's an intensification of our attacks on the leadership," a Nato official said.

Later yesterday, witnesses said the first of 24 US Apache attack helicopters finally arrived in Albania after a week of embarrassing delays.

The helicopters were to boost the firepower of Nato forces striking Yugoslav military targets on the ground inside Kosovo.

Several of the low-flying Apaches were spotted flying into Rinas airport in Tirana, the Albanian capital. The airport is the staging ground for troops and equipment that will support the helicopters once they go into action.

Yeltsin des over Skura

Uphaval in Brus

Police recov

African country catches a glimpse of its dark side

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EUROPE

Yeltsin dealt blow over Skuratov

By John Thornhill in Moscow

Russia's upper house of parliament yesterday delivered a massive blow against President Boris Yeltsin by refusing - for a second time - to accept the resignation of Yuri Skuratov, the country's top law officer, who is investigating allegations of corruption in the Kremlin.

The surprise vote by the traditionally conservative Federation Council will seriously hamper Mr Yeltsin's recent attempt to reassert his presidential authority and to wrest the political initiative back from his popular prime minister, Yevgeny Primakov. It may also encourage Mr Yeltsin's opponents to pursue impeachment proceedings against the president in the Duma, the lower house of parliament.

Nikolai Fyodorov, president of the central Russian region of Chuvashia, said

the vote was a further sign that Mr Yeltsin's nationalist and Communist enemies were determined to seize power by any means and at any price. "This is a challenge against presidential power and is dangerous for the country," he said.

But Yuri Luzhkov, Moscow's mayor, who has been widely tipped as Russia's next president, said the Federation Council's vote upheld the principle of the separation of powers. "We need a state and a democracy that works according to the law and not the actions of the president," he said.

Mr Yeltsin had made unprecedented efforts to persuade Russia's regional governors to remove Mr Skuratov, who has recently launched several controversial investigations.

Kremlin aides charged the prosecutor general was no longer suitable to hold the

top law office after doubts were raised about his integrity. Last month, Russian state television showed footage of Mr Skuratov in bed with two prostitutes, allegedly procured by a businessman under criminal investigation.

Following yesterday's parliamentary vote, Mr Skuratov said he was prepared to continue his work - in spite of his previous offers to resign. "I am obliged to respect the decision of the Federation Council," he said.

Mr Yeltsin was said to have received the news of the Federation Council's vote "calmly" amid suggestions that he might submit a third request to parliament to remove Mr Skuratov.

But the Federation Council's vote is bound to strengthen the hand of Mr Primakov, who has been engaged in an increasingly fierce and open power struggle with the Russian president.

In the past few weeks, Mr Yeltsin has met many of Russia's most prominent politicians - including Mr



Yuri Skuratov said he was now prepared to continue his work. AP

Paris faces fine over work ban

By Michael Smith in Brussels

The European Commission yesterday agreed to ask the European Court of Justice to impose a fine of more than €100m (\$108m) on France over its refusal to annul legislation banning women from working at night.

If approved by the court, the fine will grow by more than €142,000 for each day that France fails to end the ban. According to the Commission, the ban violates European Union laws on equal treatment for women in the workplace.

The French labour code provides that women may not be employed in factories and workshops at night. There are few exceptions, although the prohibition is not enforced rigidly.

Two years ago the European Court of Justice ruled that the prohibition infringed EU equal treatment laws dating from 1976, but the French authorities

have not provided the Commission with a timetable for amending its legislation.

The 20-strong college of Commissioners made their decision even though they have agreed to take no new political initiatives following their resignation en masse last month amid allegations of mismanagement.

However, a spokesman said yesterday the Commission remained the guardian of EU treaties. The level was calculated according to strict mathematical formula which took into account the gravity of the offence and France's gross national product.

The Commission also decided to ask the Court of Justice to rule illegal a Danish ban on the use of metal cans for beverages.

It argues the prohibition contravenes a 1994 directive that aims to lessen the environmental impact of packaging waste and to ensure the operation of a European single market.

Turkish party warns on customs union

By Leyla Boulton in Ankara

The Nationalist Action Party (MHP), Turkey's second most powerful party following Sunday's general election, may seek to "renegotiate" Turkey's customs union with the European Union if it joins the country's next coalition government.

Tuncsa Toskay, deputy chairman of the nationalist party, said his party would launch such an initiative if Greece failed to lift its veto on the €35m (\$400m) "symbolic financial aid" promised by the EU as part of the customs union.

Turkish officials arrive in Brussels next week for informal talks on deepening the customs union, which has so far benefited EU exporters the most. Having abolished tariffs on manufactured goods, the two sides want to create a common market in agriculture, services and public procurement - a move that would benefit Turkish producers and companies.

Mr Toskay, an economist, said his party would complete the privatisation of most enterprises still in state hands within the five-year life of the new parliament. The MHP would also support legislation strengthening banking supervision and reforming Turkey's costly social security system.

It remains unclear whether the MHP will have any part in a new government. Tansu Ciller, leader of the centre-right True Path party, yesterday called on her bitter rival Mesut Yilmaz, head of the Motherland party, to form a coalition government - which would exclude the MHP.

Akin Birdal, chairman of Turkey's human rights association, is to be jailed for eight years after the Supreme Court yesterday upheld his conviction on charges of "separatism" for Kurd-related comments.

Upheaval in Brussels delays pensions reform

The liberalisation of the European pension fund market may not see the light of day until the year-end, writes Nicholas Timmins



The mass resignation last month of the European Commission has delayed large chunks of European Union business, not least of them pension reform.

A directive aimed at liberalising the European pension fund market was all set to go the day the Commission resigned, but now it may be the end of the year before it emerges. This is a blow for an industry which has been pressing hard and long for pensions to be run on a more pan-European basis, something that the growth of multinationals and the increasing transfer of staff from one EU country to another demand.

It is also a setback to the

industry's twin-track approach to getting the law changed. On the one hand, it is pressing the EU to act. On the other, some of its players are recruiting multi-nationals to back a European Court of Justice test case as a way of resolving EU tax discrimination on pensions.

How far the latter will go remains in doubt. In theory, the removal of investment restrictions and tax discrimination could save multinational large sums by allowing them to run cross-border pensions; and even allowing them, perhaps, to merge existing schemes. A surplus in a Belgian fund, for example, might become useable to top up an underperforming Spanish one - although whether the company employees in the former would see the idea as a good one is highly debatable.

But while enough multi-

nationals may be willing to put up the funds to fight a legal action - more than a dozen have already agreed to - one of them will have to go into the firing line to provide the test case that the courts will have to examine.

In effect, that means taking on the tax authorities in whichever country the test case is fought. And there are clear signs of reluctance to do that - not least because while there may be big savings down the line from pension reform, there might be short-term costs when an angry local tax authority proves less than helpful to the company concerned over the discretionary decisions and tax law interpretation that companies inevitably face.

How fast the stalled directive appears may depend upon the fate of Mario Monti, the Italian commis-

sioner in charge of it. With Romano Prodi set to become president, either Mr Monti or Emma Bonino, the consumer affairs commissioner, will have to go as Italy is allowed only two commissioners.

Italian politics can be complex, but given the tendency of countries to balance their commissioners on political lines, one from the right and one from the left, Prodi's appointment from the centre may increase the chances of Mr Monti staying while the more radical Ms Bonino goes.

The industry certainly hopes so. If he stays and remains in the same job, action should be earlier rather than later. He told a recent FT conference on European pensions that reform was "long, long overdue". If he is replaced, the wait is likely to be longer.

Meanwhile, pension reform in the UK has seen unit trust and investment companies urging the government to take Europe into

account when making its reforms. Ministers plan a "stakeholder" pension for the UK - a kitemarked, group money-purchase scheme with low charges and no penalties for transfer or contribution holidays. While saying it will consider other forms of governance, ministers are in favour of them being run by trustees. The investment industry would prefer an enforceable code of conduct, arguing trust law is poorly understood in mainland Europe.

"There will be tremendous opportunities ahead for the UK financial services industry if it can offer a flexible, low-cost and transparent pension product which is attractive to EU markets," the investment industry's trade association says. "A product based entirely on trust law is unlikely to be able to take advantage of this rapidly developing market" - a market which needs liberalisation if it is to deliver in full.

Sweden's euro campaign delayed

By Tim Burt in Stockholm

A long-awaited information campaign in Sweden on the implications of European economic and monetary union has been delayed for more than three months following the resignation of the European Commission and the abrupt departure last week of Erik Asbrink, the country's finance minister.

The Swedish government, which has adopted a wait-and-see approach to the euro, was due to launch a public information campaign on the single currency at the start of the year.

But the government and the European Commission, jointly funding the campaign, have yet to sign a memorandum of understanding that would let it proceed.

In recent months, the ruling Social Democrats have emphasised that a referen-

dum on joining the euro cannot take place without conducting an exhaustive information drive on the likely impact for Scandinavia's largest economy.

The Commission has been pressing Swedish officials to launch such a campaign for more than a year.

Supporters of euro membership in Sweden regard the delay as a missed opportunity to capitalise on an upswing in support for the single currency at the end of last year. Opinion polls last winter suggested a growing number of Swedes favoured joining the euro.

But since then polls have signalled growing scepticism. A survey last week showed those in favour falling from 51 per cent last December to 40 per cent.

At the earliest, a euro referendum might be held in autumn 2000.

THE AMERICAS

Police recover shooting victims' bodies

By Gautam Mukherjee in Washington

Police finally began moving bodies from a Denver high school yesterday afternoon, more than 24 hours after the first shots in a massacre which left 15 people dead.

Efforts to enter the building had been hindered by booby traps and explosives that threatened to make the tragedy worse. Steve Davis

of Jefferson County Police said officers mark continue to sweep parked cars on the premises for hidden devices.

The death toll includes the two dead suspects, believed to have committed suicide, and one male adult. At least 23 people were taken to hospital, mostly with gunshot wounds. At least nine victims were in critical or serious condition. One girl suffered nine shrapnel wounds.

The number of deaths was originally thought to be higher but the shooting at Columbine High School remains one of the worst mass shootings in US history. It follows a series of similar incidents in American schools over the past two years.

The furious debate about gun control in the US was largely constrained by the continuing uncertainty surrounding the incident. Crucially, a question mark remained over how the two suspects, identified by fellow students as seniors Dylan Klebold and Eric Harris, both 18, got hold of the weapons.

Janet Reno, attorney general, said stricter gun laws were only part of the solution to the state of school violence. She told ABC's Good Morning America:

"We've got to get guns out of the hands of young people. We've got to make sure they have the counselling, the support to help them come to grips with the anger of their life when it occurs."

President Bill Clinton called on the nation yesterday morning to "shield our children from violent images and experiences that warp young perceptions".

Nancy Hwa of Handgun

Control said: "It's ridiculous to sacrifice the lives of children on the altar of the Second Amendment (the right to bear arms). These young people could not have done the damage that they did without these weapons."

Mr Davis said police had not discovered a motive for the killings but had heard speculation it might be connected to Adolf Hitler's birthday.



Ashley and Staci Prinz lay flowers at the perimeter of the Columbine High School grounds yesterday, as security remained tight around the school after Tuesday's shootings. Reuters

A rich country catches a glimpse of its dark side

Freedom from want has not brought freedom from fear, reports Gerard Baker

The statistics say serious juvenile crime in the US is at its lowest level in more than a decade. The experts reassure Americans that their children are safer in classrooms than they are on the streets or even in their homes. But every parent in America who has dropped his child at the school gates or bus stop yesterday struggled to suppress a pang of nervous anxiety.

Tuesday's killings highlighted once again the curious paradox in American lives between what is widely perceived as an age of golden prosperity and peace, and occasional glimpses of a frightening social reality that seems to prefigure nothing but death and despair.

The Trench Coat Mafia of the Columbine High School near Denver were merely the most brutal in a line of child killers that has now engulfed eight schools in two years. And though President Bill Clinton did his best to reassure parents that America's schools were not becoming killing fields, the incident once again raised fundamental questions about the virtues of the widely touted American model.

Politicians quickly delivered their verdict. For a few, mostly liberal Democrats, it was the latest example of the folly of America's incredibly

permissive gun laws.

But for conservatives it was another peek into the heart of darkness that modern American society has become.

Patrick Buchanan, one of the contenders for the Republican presidential nomination, said: "At Littleton yesterday, Americans got a glimpse of the last step on that train to hell she boarded decades ago when we declared that God is dead, and that each of us is his or her own god who can make up the rules as we go along."

Mr Buchanan's rhetoric will echo time and again throughout the presidential election campaign over the next year and a half. Even if his policy prescriptions are not widely shared, the sentiment resonates with many Americans. They capture better than most the ambivalence many now feel about their modern society, where the culture of individual enterprise has created phenomenal economic success but at the apparent cost of greater disintegration.

Crime may be down, but polls suggest people feel less safe than ever. The main reason they are buying more handguns is apparently to protect themselves from violent criminals. Unemployment is at a 30-year low, but

more ordinary Americans are working harder and longer to maintain living standards that have not significantly improved in two decades.

The US is reaping the benefits of a globally integrating economy, but Americans fear that their jobs are being lost to cheap foreign competition.

It is a paradox also reflected in the spectacle of a country spending billions of dollars on a war in Europe in which extraordinary effort is being spent to ensure not a single American casualty is sustained.

while in a comfortable Denver suburb 13 children are gunned down, commando-style, by boys in black masks with a hankering for Nazi memorabilia.

And as the US reaps enormous economic benefit from the technological revolution it has masterminded in the last 10 years, it is clear that even this has its equal and opposite effect.

While e-commerce refines and improves the US marketplace, the internet is bringing more grotesque violence and sexual imagery into ordinary Americans'

homes than the most pessimistic doomsayers would have thought possible a decade ago; it was no surprise to discover that the Trench Coat mafiosi had pioneered their own web site.

It is far from clear whether this dark overture to American success will have much immediate political impact. The expectation among the experts remains that the economic benefits will continue to weigh more heavily with Americans than the social ills that seem to accompany them.

In any case, there seems to be a fatalism about many

Americans' attitudes. Polls suggest people believe that, even if it existed, there is little hope of turning back the clock to a largely elusive bygone age of the cohesive family unit, underpinned by strict moral codes.

Instead they console themselves with the ultimate solipsistic comfort - it could not happen to them. Even if most are still unable to escape the chilling feeling that somewhere in America, sitting sullenly behind a lonely desk, some mother's son is just waiting his chance to join the grisly honour roll.

NEWS DIGEST

PROTESTS AT TAX RISES

Violent demonstrations paralyse Jamaica

Jamaica remained paralysed yesterday by violent street protests and demonstrations against taxes imposed last week. Businesses have been hit by arson and looting, and the trouble was expected to worsen, with the political opposition planning marches and demonstrations.

A promise by Percival Patterson, prime minister, to have the taxes reviewed to mollify their impact, appeared to have had no effect yesterday on the protesters. "There is no alternative to raising the money," Mr Patterson said.

Streets in Kingston and other towns were again blocked with debris yesterday. Gunfire was reported in parts of Kingston. Three looters have been shot dead and about 200 people arrested since the disturbances began.

The protests have hit hard at the island's struggling economy, particularly tourism. Canute James, Kingston

CHANGE TO GOODWILL RULES

Merger activity may be hit

The top US accounting watchdog is eliminating pooling of interests rules, the accounting treatment which has helped fuel a boom in mergers and acquisitions.

The Financial Accounting Standards Board has decided that from late next year, all business combinations will have to be accounted for under the purchase method instead. As a result, future takeovers will give rise to goodwill - the premium paid over tangible assets - which companies will have to capitalise and then write off against profits, penalising their earnings growth.

Analysts say the FASB's decision could further accelerate M&A activity as companies rush to execute poolings before the new rules come into force late next year. But it could then lead to a hiatus until investors have taken the changes on board. Daniel Bögler, New York

MILLENNIUM BUG

Y2K problem 'unlikely in US'

Progress in the public and private sectors means that the Year 2000 computer problem is now unlikely to cause serious national disruptions in the US but several developing countries are almost certain to suffer failures in critical systems, a White House task force says.

According to a report on the problem - better known as Y2K or the "millennium bomb" - by the President's Council on Year 2000 Conversion, most critical federal government systems and key industries such as electricity, telecommunications and banking will be fully compliant before the year-end deadline. Mark Suzman, Washington

CORRECTION

Aristotle Publishing

A report in some editions of the Financial Times on April 20 incorrectly stated that Aristotle Publishing would be using e-mail as part of its new political advertising service. The service, which allows political organisations to target groups of registered voters, relies entirely on banner advertisements on internet pages.

WORLD TRADE

DEFENCE EXPORTS WASHINGTON CONCERNED OVER BACK-DOOR ROUTE FOR EXPORT OF SENSITIVE US WEAPONS

Tighter US arms controls anger Canadians

By Edward Alden in Toronto

Canada's defence industry is up in arms over changes to US export control regulations that have eliminated Canada's long-standing exemption from certain US export licensing requirements.

The US State Department, which published the new rules this month, says the changes were made in response to concerns that US defence items shipped to Canada could be diverted to

restricted countries such as China, Iran or North Korea.

But Canadian defence companies say the regulations have immediately choked off much two-way trade and are having a far broader impact than the US anticipated or intended.

The US has become increasingly concerned that Canada is failing to prevent sensitive technology diversions.

A Chinese-Canadian businessman was indicted in the

US last month on charges of trying to circumvent US export controls by illegally diverting missile technology through Canada to China.

The new US regulations, for instance, would require special permits in cases where Canadians with dual citizenship handle sensitive military technology.

Canadian companies, most of them subsidiaries of US defence groups, export about C\$500m (US\$330m) in goods and services to the US military annually.

Daniel Verrault, vice-president of policy research for the Aerospace Industries Association of Canada, estimates about 60 to 70 per cent of that trade will be affected by the new regulations.

He fears that US companies will avoid Canadian suppliers rather than deal with the red tape of the export permit process.

Among the companies most affected by the new regulations are Allied-Signal, CAE, Lockheed-Martin, Litton Industries

and Canadian Marconi.

Mr Verrault said some US companies had already stopped shipping certain components to their Canadian subsidiaries and had halted the sharing of technical information to avoid violating the new regulations.

The changes to the International Traffic in Arms Regulations end an exemption for Canada that is more than 50 years old. Previously, US companies were not required to obtain export

permits for shipments of military items to Canada, excluding only a handful of particularly sensitive items such as nuclear weapons delivery systems, nuclear propulsion systems and submarines. Such permits, which can take up to 90 days to be issued and may be denied by the State Department, are required for exports to western European countries and other US allies.

"We've never had controls on Canada because Canada's such a close ally and has fol-

lowed US policy so carefully there hasn't been a need for controls," said a former US commerce department official.

The Canadian government thinks Canada has been wrongly singled out by the state department as part of a larger US effort to tighten its export control regulations.

Lloyd Axworthy, Canada's foreign minister, is scheduled to meet Madeleine Albright, US secretary of State tomorrow to press for an easing of the restrictions.

C&W rethinks Hanoi contract

By Jonathan Marshall in Hanoi

Cable & Wireless, the British telecommunications company, is seeking to renege a \$207m revenue-sharing contract to install telephone lines in Hanoi, amid growing signs of disarray in Vietnam's efforts to develop its telecom network with the support of foreign companies.

C&W secured the 15-year contract with state-owned Vietnam National Posts and Telecommunications (VNPT) last August after more than three years of negotiations. Roger Barlow, the company's Vietnam representative, says it now wants to adjust the terms to take account of falling demand for phone lines in Vietnam's slowing economy.

C&W was to have installed 250,000 lines in the west and south of Hanoi during an initial five-year phase, and to provide management and technical expertise over 15 years. The company is now seeking either a revision of the original schedule or a reduction in the number of lines.

C&W is hoping an agreement will allow work to begin in Hanoi by June or July. However, NTT and France Telecom, which both secured similar contracts in November 1997, have also been facing delays. NTT has a \$194m contract to install 240,000 lines in the north and east of Hanoi.

Australia's Telstra has also been involved in talks for more than four years on a \$300m deal to install 400,000 lines in Ho Chi Minh City. All four contracts are part of VNPT's effort to increase penetration from 23 to 6 telephones per 100 people. Revenue-sharing contracts, known in Vietnam as business co-operation contracts, have been Vietnam's preferred method for securing foreign telecoms investment.

A 'rum' business as Bacardi case threatens to trigger trademarks war between US and Cuba

Cuba is warning of retaliation against US brands after a 'political' New York court ruling against a French-Cuban rum venture. **Pascal Fletcher reports**

A legal battle over a trademark between international drinks company Bacardi and a Cuban venture of France's Pernod Ricard threatens to trigger a US-Cuban war over trademarks.

This month a US court rejected an attempt by Havana Club International, a joint venture between Pernod Ricard and Cuba's Havana Rum and Liqueurs, to stop Bacardi using the disputed Havana Club name in the US.

Before the ruling a senior Cuban official warned that if the decision went against Havana Club International, Cuba might take action against trademarks and patents of US companies registered on the island.

Since 1994, Havana Club International has been selling the "Havana Club" brand of Cuban-produced rum around the world, excluding the US market, where sales are barred by the US economic embargo against Cuba.

In the New York court

case, Havana Club International had alleged that Bacardi, a company set up by Cuba's most famous rum-makers who went into exile after the 1959 revolution, had engaged in unfair competition by starting to use the "Havana Club" name to sell their own non-Cuban origin rum in the US.

Noel Adrian, the French managing director of Havana Club International, described the US court ruling as "political" and said his company would appeal.

"Our reaction is a certain surprise and disappointment because the facts are completely in our favour. But you can see that the judge's decision follows US laws against Cuba," Mr Adrian said in Havana. He had given extensive testimony during the court case.

Mr Adrian noted that the 37-page ruling by Judge Shira Scheindlin made specific mention of the 1996 US Helms-Burton law, which codifies and strengthens the longstanding US embargo against the

communist-ruled island.

Her finding also rested heavily on one section of the 1996 US budget law approved by the US Congress last October 21. This section in effect stipulates that Cuban nationals cannot assert trademark protection treaty rights if such names or marks previously were used in connection with confiscated businesses.

1996 US law 'deliberate attempt to unfairly and illegally punish Pernod Ricard'

The US judge found that, as a company owned in part by the Cuban government, Havana Club International clearly fitted the "designated" - in this case Cuban - national category. The Havana Club rum name was originally owned by the Cuban Arechabala family, whose Cárdenas distillery was forcibly confiscated by the Cuban revolutionary

government in early 1960. Bacardi purchased the Havana Club trademark, for use in the US, after negotiations with the exiled Arechabala family in 1995. Havana Club International argues that the name had been abandoned by the Arechabala family.

Cuba's government has not officially reacted so far to the April 13 court ruling. But on January 3, a senior Cuban official, Ricardo Alarcon, condemned Section 211 of the 1996 US Budget law, describing it as a deliberate attempt to "unfairly and illegally" punish Pernod Ricard and its Cuban rum venture.

Mr Alarcon then went on to note that US companies currently had trademarks and patents registered in Cuba under existing international intellectual property treaties.

In what appeared to be a thinly veiled warning about the possible repercussions of the Havana Club case, he said: "The owners of these trademarks and patents should be worried about the irresponsibility of a government (the US) that might take actions which will not go without response."

"The key is to wait and see

what the Cubans will do," said John Kavulich of the New York-based US-Cuba Trade and Economic Council, a non-profit group which closely monitors US-Cuban trade and economic issues.

Mr Adrian said he understood that a large number of trademarks owned by US corporations, including Coca-Cola, Marlboro, Palmolive and Hilton, continued to be legally registered in Cuba.

He said the French government had been closely following the Havana Club case and he believed the European Commission might even take it to the World Trade Organisation.

"Bacardi is afraid about the huge growth of Havana Club worldwide and they don't want Havana Club breaking into the US market. So they politicised the case to win it," Mr Adrian said.

He added that over the last five years, international sales of Havana Club Cuban rum by the French-Cuban venture had quadrupled to 1m cases in 1998. But this was still small compared with Bacardi's huge annual sales of 20m cases, 6m of them in the US alone.

"We are the small guys in this story," Mr Adrian said.



A 1950s Cuban advert featuring the Bacardi bat reads: 'Always imitated, never equalled'. The company's Cuban properties were expropriated in 1960. It bought the Havana Club brand in 1995. Cuba says the name had been abandoned by its former owners

INTERNATIONAL

TREASURY BILLS CENTRAL BANK ORDERS MANDATORY PURCHASE IN EFFORT TO STABILISE ECONOMY

Nigerian monetary action alarms banks

By William Walls in Lagos

Nigeria's central bank has ordered the mandatory purchase of around 30bn naira (\$333m) of treasury bills in an attempt to curb excess liquidity in the money markets and defend the value of the currency.

The "special" treasury bills are not eligible for discounting or trading until after a minimum period of three months from the date of purchase. The central bank can roll them over for any additional period and at flexible interest rates which

started at 17.5 per cent.

An announcement published on Tuesday by the central bank said the initiative was designed to assist the monetary authorities in "reducing liquidity in the system to a level consistent with the achievement of macro-economic stability".

"The recent unprecedented surge in base money has seriously exacerbated the prevailing liquidity overhang in the banking system," it added.

The announcement, which has alarmed the banking sector, follows a decision last

month by the government to shift public sector money from the state-owned bank to the commercial sector. The release of around N70bn into the banks has contributed to a surge in foreign exchange demand at the Autonomous Foreign Exchange Market.

The fact that government has made no budgetary allocation to the AFEM this year to account for the additional public sector demand has also contributed to pressure on the naira which was devalued last month by 4.2 per cent, although banks

say recent confusion over new import regulations have also played a role.

A finance official described the measure as "panicked" but said it was intended to ensure that foreign exchange demand, \$171m last week, would be lower this week.

"This could have been disastrous for the central bank," he said. The amounts debited to commercial and merchant banks in return for the bills has been calculated retrospectively according to each bank's first quarter foreign exchange

applications, and not - as has been occasionally carried out in the past - on the basis of deposit liabilities.

Commercial bankers appeared stunned yesterday. "They have released a regime of compulsory borrowing from the banking system to make up for the government's fiscal deficit," said Ateko Peterside, chief executive of Lagos-based Investment banking and Trust Company Limited.

The amount borrowed from the banks this week comes close to covering Nigeria's first quarter fiscal

deficit of N38bn, although the interest on the bills will obviously incur further extra-budgetary expenditure later in the year.

Foreign reserves in the same period have dropped from \$6.7bn to \$4bn at the end of March in part due to spending designed to shore up the drifting naira. Reacting to the compulsory purchase orders, inter-bank interest rates shot up yesterday from 16 per cent to over 30 per cent at most banks. At the Autonomous Foreign Exchange Market, demand collapsed.

IMF SPRING MEETINGS POOR COUNTRIES ANXIOUS ABOUT NEW CONDITIONS FOR LOANS

World Bank sets out plans for global code for social policy

By Robert Chote in Washington

Proposals for an international code of conduct for social policy will be discussed by finance and development ministers in Washington next week, and fears among developing countries that it will be used to impose further conditions on them when they borrow from international financial institutions.

The World Bank has prepared a draft set of "principles of good practice social policy", which draws on its own experience of social development as well as action plans and declarations drawn up by other bodies. In particular, it incorporates conclusions from the declaration of the World Summit for Social Development held in Copenhagen in 1995.

The principles document will be discussed by the ministerial "development committee" next Wednesday. Developing countries are concerned that the burden of observing the principles will fall unduly on them, because the bank has no levers with which to demand changes in policy from industrial countries that do not borrow from it.

However, Gordon Brown, the UK chancellor, argued yesterday that surveillance

of all international codes of conduct - including the social code - should be brought within the remit of the IMF's regular "Article 4" consultations, which are held with all its 182 member nations. To do this, the Fund would be required to draw on the expertise of other international organisations.

Officials said that drafting the reference to the social code in the development committee communiqué was likely to prove controversial, especially any reference to how the bank and fund should apply the principles in their own relations with borrowing nations.

"General principles for social policy should have as their goal the promotion of social development of all the world's peoples - to increase their capacity to improve their lives and influence the decisions which affect them," the document argues. It identifies four general principles:

- Achieving universal and equitable access to basic social services, including access to basic education and health care, reproductive health, sanitation and safe drinking water. The document notes that many development countries are far from these goals, hence the international development targets drawn up under the

agies of the Organisation for Economic Co-operation and Development.

The document also makes clear that there are special risks of cuts in social services during and in the wake of financial crises like those that have swept emerging market economies over the past two years. "Explicit efforts need to be made to protect pre-crisis levels of basic social services", an argument with implications for IMF and bank programmes put in place in crisis situations.

- Enabling all men and women to attain secure and sustainable livelihoods, and decent working conditions. Objectives include full employment and the protection of core labour standards, including the elimination of forced labour, harmful child labour and discrimination. There should also be support for freedom of association and the right to collective bargaining.

The bank argues that in pursuing these goals, it should be remembered that many people in developing countries work outside the formal economy. Then the pattern of growth and direct public sector help is more important than formal labour laws. Labour rules should not be designed so that the increase in equality

would destroy jobs.

"In crisis situations, specific attention should be given to minimising job losses and avoiding any worsening of agreed core labour standards," the document argues. "During corporate restructuring, explicit efforts should also be made to ensure that employment effects are taken into account - and attention given to the needs of medium and small scale businesses."

- Promoting systems of social protection, to safeguard people from adverse economic shocks. Cost effective social safety nets are important to support vulnerable groups in normal times and to meet additional needs during crises. Policies should be sensitive to the role of informal support mechanisms, working through families and local communities.

- Fostering social inclusion, which means promoting safe societies, respect for diversity, tolerance and human rights and enhancing the participation of the poor, vulnerable and disadvantaged in economies and societies. The bank notes that these objectives are difficult to achieve in all countries and that in crisis situations "priority should be given to promoting equity and social cohesion".

Abu Dhabi asks banks to set up in free trade zone

By George Graham, Banking Editor in London

Abu Dhabi has written to 50 of the world's leading international banks to invite them to apply for licences in its new free trade zone on Saadiyat Island.

This is the first time since 1982 that banking licences have been made available to international banks in the United Arab Emirates.

Only 10 banks from the Organisation for Economic Co-operation and Development countries are represented in the UAE. Invitations have been sent to leading institutions without a local presence, including Bank of America in the US and National Westminster Bank in the UK, while some of those already established may also consider a move to the offshore centre.

The Abu Dhabi Free Zone Authority yesterday issued new banking regulations governing the Saadiyat zone, which it hopes to establish as an offshore financial centre with a stock exchange, and futures exchange and a commodities exchange.

The authority, chaired by Sheikh Hazza bin Zayed al Nahyan, a son of the ruler of Abu Dhabi, has been given sole regulatory authority

over the financial centre by the UAE government. It has shortlisted three firms of headhunters to help it recruit financial supervisors.

"They definitely want to attract the leading international banks. They don't want to find they have inadvertently attracted the wrong people," said an official familiar with the project.

The regulations are largely modelled on British and US banking rules, and seek to comply with the core principles laid down by the Basle Committee of banking supervisors.

Banks will be able to secure long term leases on properties on Saadiyat and, unusually for the region, will not have any local employment restrictions placed on them. They will be able to take wholesale deposits from UAE nationals, and make local corporate loans.

The Saadiyat project is being driven by Emirates Global Capital Corporation, which is expected to raise \$3.8bn of capital. Half will come from large UAE institutions, with a \$900m initial public offering to local investors and a \$1bn issue of global depositary receipts to international investors.

NEWS DIGEST

IRANIAN POLITICS

Conservatives seek to oust liberal minister

A group of conservative Iranian deputies called yesterday for the impeachment of Iran's moderate culture minister, in the latest assault on President Mohammad Khatami's reforms.

The 31 deputies presented a petition to the 270-seat parliament, summoning culture and Islamic guidance minister Ataollah Mohajerani to be grilled on his moderate policies, Iran's official news agency IRNA reported.

Mr Mohajerani, a liberal thinker and close Khatami ally, will have to appear within 10 days in the conservative-dominated parliament to answer deputies' questions. The process could lead to his removal through a vote of no confidence.

The petition accused Mr Mohajerani of failing to uphold Islamic and revolutionary values by following a liberal policy towards the press, book publishing and the arts. It also suggested he might have embezzled public funds.

Mr Mohajerani has borne the brunt of the conservatives' attacks since the parliament ousted the liberal former interior minister Abdollah Nouri in June. Reuters, Tehran

ALGERIA

Britain criticises election

Britain has joined the US and France in criticising the conduct of last week's presidential elections in Algeria. Derek Fatchett, minister at the foreign office, said: "Sadly, it appears that the elections have taken forward neither the reality nor the image of democracy in Algeria." Algeria's constitutional council formally declared Abdelaziz Bouteflika, the former foreign minister who was the regime's candidate, as the winner of last week's election. The poll was tarnished by allegations of fraud and the withdrawal of Mr Bouteflika's six rivals.

Mr Fatchett said Britain was consulting European Union partners on the implications of the results. Last week, France said it was preoccupied by the situation in Algeria and the US expressed disappointment. In Algeria, the foreign ministry reacted to Mr Fatchett's statement with "indignation" and rejected "this clear interference in our internal affairs." Roula Khalaf, London

BANKING SUPERVISION

Credit risk models rejected

International banking supervisors warned yesterday that they were not yet ready to allow the use of advanced credit risk modelling techniques for calculating how much capital banks need to hold.

The Basle committee, which groups banking supervisors from the major industrialised nations, issued a report analysing current issues in credit risk modelling, which allows banks to quantify and aggregate the credit risk of a portfolio of loans spanning geographical and business lines.

William McDonough, Basle committee chairman and president of the New York Federal Reserve, said credit risk modelling would play a critical role in risk management and could eventually have a role in calculating capital adequacy requirements.

But the report warned credit risk models still had a number of hurdles to clear before regulators accepted them. ● *Credit Risk Modelling: Current Practices and Applications*, www.bis.org. George Graham, London

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Conservatives seek to
oust liberal minister

Britain criticises election

Credit risk models rejected

ASIA-PACIFIC

E Timor ceasefire signed in wake of massacre

By Our International Staff

East Timorese supporters and opponents of Indonesian rule signed a ceasefire agreement in Dili, the East Timor capital, yesterday, supervised by the Indonesian army.

Scores of people have died in recent months in mounting violence after Jakarta appeared to end 23 years of opposition to independence in January and said it might give the former Portuguese colony independence if it rejected an

offer of enhanced autonomy. However, many people in East Timor fear that yesterday's deal will have little effect because the army is the driving force behind the violence of the pro-Jakarta militias.

The army is reacting to intense foreign diplomatic pressure triggered by the murder of at least 20 civilians by Timorese militiamen on Saturday. General Wiranto, the armed forces commander, flew to Dili to witness the agreement.

It calls on all parties to

cease acts of violence, to respect the peacemaking efforts of the United Nations and the local Catholic church, and to set up a peace and stability commission with two representatives from each side. But it does not commit the militiamen to hand over their guns, most of which are homemade muskets.

The agreement could be the basis for reconciliation, Timorese on both sides say, but it could easily be broken.

It does not change the fact only a minority of East

Timorese want Indonesian rule to continue, and this minority is likely to lose a UN-sponsored referendum on independence planned for July. The aim of the militias appears to be to block or subvert the vote.

Few people in Dili are ready to believe General Wiranto's pledge that from now on, the security forces will uphold the law impartially. There is clear evidence the army is in tacit alliance with the militias.

Until the outcry over Saturday's massacre, militia

members were allowed to move around freely, breaking the law by carrying illegal weapons.

Bishop Carlos Belo, the senior Catholic figure in East Timor, hosted the signing but refused to put his name to it because he had not been consulted.

Jose Xanana Gusmao, the leader of the East Timorese independence movement, signed a copy in his Jakarta prison. But only two of his more influential followers were at Bishop Belo's house yesterday. The rest have

gone into hiding.

"This is just a ceremony. We've had a lot of these. The proof will come later," said Manuel Carrascalao, whose son was killed on Saturday.

● Jakarta yesterday passed a bill giving more autonomy to its provinces in an effort to ease growing regional tensions. The bill, applying to all 27 provinces except East Timor which has a separate agreement, gives wide-ranging authority to regional governments.

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NEWS DIGEST

FRAGILE ECONOMY

Japanese trade surplus soars as imports fall

Japan yesterday announced its second-largest trade surplus for the fiscal year ending this March - up 23.1 per cent on the same period a year before at ¥14,696bn (\$11.6bn). The trade surplus with the US rose 23.5 per cent to ¥6,690bn, the fifth largest surplus ever, the Ministry of Finance said.

The trade figures underscore the fragility of Japan's economy in the face of a cheery and robust outlook in the US. The surplus also comes at a politically delicate moment in US-Japan trade talks in Washington, and just before Keizo Obuchi, the prime minister, is due to visit the US this month.

"As long as the US is healthy, trade frictions with Japan will probably not become a significant international relations issue, but rather will remain sector-specific with a focus on flat glass, steel and insurance, for example," said Richard Jerram, chief economist at ING Barings Securities.

In the 12 month period to the end of March overall imports by Japan fell 11.5 per cent from the same period in 1997-98, outpacing exports which fell 3.8 per cent. Exports to the US climbed 4.2 per cent to ¥15,159bn, while imports fell 7.2 per cent to ¥8,472bn in the same period. The trade surplus with the European Union climbed 42.5 per cent to ¥4,265bn and the trade surplus with Asia fell 36 per cent to ¥3,804bn.

In March, Japan's overall trade surplus rose 7.5 per cent, compared with the same month a year earlier, to ¥1,334bn. Japan's trade surplus with the US rose 29.1 per cent to ¥570bn in March, according to Ministry of Finance. The trade surplus with Europe for the month fell 6.3 per cent to ¥332bn.

Exports of Japanese cars fell 3.6 per cent in March to ¥633bn, while imports plunged 21.9 per cent to ¥56bn. Alexandra Nussbaum, Tokyo

EXTORTION CASE

Racketeer gets jail sentence

A Japanese racketeer was yesterday fined millions of dollars and sentenced to nine months in jail for extortion involving the country's top securities companies and a leading bank.

Ryuichi Koike was convicted of accepting illegal loans and payoffs worth ¥12.4bn (\$104m) from Japan's Big Four securities groups and Dai-ichi Kangyo Bank (DKB) in a scandal that shocked Japan when it broke in 1997.

Mr Koike was fined ¥690m (\$5.8m) the amount he received in pay-offs from Nomura Securities, Daiwa Securities, Nikko Securities and the now-defunct Yamachi Securities between 1994 and 1995.

He had also received loans worth ¥11.7bn from a DKB subsidiary between 1994 and 1996. Mr Koike admitted taking the pay-offs in exchange for not disrupting the companies' annual shareholder meetings, a practice known as *sokaiya*.

The scandal led to indictments of 31 executives, 25 of whom have since been convicted. Reuters, Tokyo

BANKING CRISIS

Jakarta acts on bonds

Indonesia yesterday took a further faltering step towards recapitalising its banks by revealing further details of the government bonds it will issue to support the process. But its central bank said the government had yet to resolve the sensitive question of the interest rate on the 10-year fixed-rate tranche, and gave no indication of when the bonds would be issued. The government has estimated the total cost of the bank rescue at Rp300,000bn (\$34.3bn), but analysts believe it could be more than twice that figure.

Miranda Goeltom, managing director of Bank Indonesia, said the package would include variable rate bonds with an interest rate linked to the three-month central bank bill rate, currently around 35 per cent. The variable-rate bonds would be used to bring the capital of affected banks back to zero, while the fixed-rate issue would add new capital to bring risk-weighted ratios to a target figure of 4 per cent. S. K. Zainuddin, Jakarta

SOUTH KOREAN ECONOMY

Shares fall on unrest

Seoul's share index yesterday fell by nearly 3.7 per cent as foreign investor concerns grew over spreading labour unrest in South Korea. Shipyard workers at Daewoo Heavy Industry and state technology researchers joined Seoul underground transport workers to protest against threatened job cuts resulting from corporate restructuring in the private and state sectors. Some 6,000 Daewoo workers went on a full strike to protest against plans by the parent Daewoo group to sell the shipyard to Japanese rivals as part of restructuring plans.

South Korean unemployment is approaching 9 per cent, but the labour minister says it is expected to fall soon. John Burton, Seoul

LIVING STANDARDS

Fewer Chinese in poverty

The number of Chinese living below the poverty line fell to 42m last year from 250m in 1978. China was home to one quarter of the world's poor in the late 1970s, when the Chinese economy began its transition from central planning towards freer markets. Today, one tenth of the world's poor are Chinese, the official Xinhua news agency reported yesterday.

Beijing has invested Rmb110bn (\$13.2bn) between 1986 and 1998 in industrial projects to raise the income of the poor, and individuals have started to donate more and more in cash and goods to poverty relief. The official news agency estimated that public donations amounted to Rmb3bn each year.

The poverty line last year for rural Chinese was income or equivalent income of Rmb640 a year, and Rmb2,000-2,300 for urban residents. James Harding, Shanghai

The reluctant joins with the hopeful to do the impossible

Mark Nicholson profiles Sonia Gandhi and weighs the political intrigues involved in her attempts to form a government

By next week the government of the world's biggest democracy could well be headed by a publicity-shy, intensely private and once apolitical 52-year-old woman.

Though she is Italian-born, her face is among the most instantly recognisable in India and her family name has dominated Indian politics for more than two generations. But beyond the close circle of friends, few know much about Sonia Gandhi.

Mrs Gandhi, president of the Congress party, has never stood for election, has been in active politics for just over a year but has not given a press conference or interview, and is said by friends not to want to be prime minister if Congress can form a new government in the next few days.

But she is a Gandhi, widow of Rajiv Gandhi, the Congress leader assassinated in 1991 and thus the inheritor of the Nehru-Gandhi political dynasty which has dominated Indian political life for much of its 51 independent years. And that alone, in the eyes of most Congress politicians, qualifies Mrs Gandhi for India's highest political office. Whether Mrs Gandhi wants the job or not, she may find it hard to resist, given pressures within the party.

The question then would be whether Mrs Gandhi is qualified to run India's government; and whether the instinctively cautious Mrs Gandhi might be taking the biggest risk of her life.

For some political opponents, particularly within the nationalist Bharatiya

Janata party, Mrs Gandhi's Italian origins alone should disqualify her from the office. A gang of BJP supporters were chanting "Go back to Italy" yesterday outside parliament - a taste perhaps of things to come.

Others ask whether Mrs Gandhi has the experience or political savvy to run a government, particularly the kind of precarious minority administration Congress may be about to create.

Though Mrs Gandhi was the party's tireless "star campaigner" in the election last year, and is seen as having saved the party from political oblivion by agreeing to abandon years of widow's seclusion to head it, her public profile remains limited. "She has still not graduated from the amateurish spell of reading out speeches in public functions," wrote the commentator Saad Naqvi in the Indian Express.

But those close to Mrs Gandhi suggest she should not be underestimated. She may, until last year, have spent most of the 30 years she has lived in India devoting herself privately to her family, her daughter Priyanka and son Rahul, and to the charitable foundation she founded on her husband's death, but she is not necessarily a political ingenu. Friends say she learnt a great deal at the knee of Indira Gandhi, her mother-in-law, with whom she was very close.

While Rajiv was an MP, Sonia worked diligently in his constituency of Amethi, spending a great deal of time working on welfare and social projects.

Sonia Gandhi: so much asked of one so little known



- Born 52 years ago into a middle-class family in Orbassano near Turin, Italy
- Met Rajiv Gandhi at Cambridge while a languages student. Married in 1968
- Close to mother-in-law Indira Gandhi - cradled the dying veteran politician in her arms when she was assassinated in 1984
- Counsellor against Rajiv entering politics after his mother's death, but nurtured his constituency Amethi, Uttar Pradesh
- After Rajiv's assassination in 1991, set up Rajiv Gandhi Foundation, one of India's biggest charities
- Formally entered politics in March last year when she became president of a fragmented Congress party. Has never held political office

Since taking the helm of Congress, she is seen as having restored some discipline to a party which last year appeared set to self-destruct. She can claim some credit for something of a Congress revival, helping the party win three state elections last November. But so far, most of her achievements have been within the party. And while she may hold much of Congress in thrall, her wider political appeal is untested.

Little is known of her political views. Most of her campaign speeches in the last elections amounted to affirmations of Congress's dedication to "secularism" and "pro-poor" policies, along with invocations of the Gandhi tradition. Some of those close to her describe her as a "European social democrat". But she has yet to make any visible imprint on Congress policy.

Her views are the harder to discern given her predilection for privacy and caution. Access to "Madam", as she is respectfully known within Congress, is tightly controlled by close minders. She takes counsel widely within the party, but tends to keep her own counsel on three or four confidantes.

"None can pose as her closest adviser," says a friend. "She keeps her own counsel. She wants a bunch of inputs from people, but in the end she decides on her own."

Whether she has any personal political ambition is also unclear. There are those who believe she is "keeping the seat warm" for Priyanka, her 28-year-old daughter, who showed a clear taste for the hustings during the election last year.

Whatever her ambitions might be, there are significant risks in becoming prime minister. Though she is Con-

gress's most popular leader, she does have ambitious enemies within the party. Some non-Congress politicians even believe she is being pushed to head an unwieldy minority government she will fail to manage, and with its inevitable fall will come her's. "There is an attempt to make her prime minister at the most difficult possible time in the most awkward possible government," says one Janata Dal party MP.

And there is also the question of personal risk. Mrs Gandhi was near Indira Gandhi when she was machine-gunned by her Sikh bodyguards, and cradled her dying mother-in-law in her arms. She advised Rajiv not to enter politics at that time, when the party inevitably turned to the next Gandhi for leadership. He was assassinated six years later. No one knows better the risks of being a Gandhi.

Taiwan's industrial output rises strongly

By Marc Dickie in Taipei

Taiwan's industrial output last month rose an unexpectedly strong 7.89 per cent compared with March 1998, lifting year-on-year growth for the first quarter to 5.42 per cent. These figures suggest the island benefited from swift economic expansion in the first three months of the year.

The economics ministry said output in the troubled property and construction sector had jumped 53.15 per cent in March compared with the same month in 1998. The information technology and electronics industries also showed strong growth.

The upturn followed the announcement of preferential loans to support the property market, which is suffering from severe over-

supply, while the electronics industry has been benefiting from a rise in overseas orders and relative stability in computer chip prices.

Wednesday's figures were the latest positive signal to cause analysts and officials to revise their economic growth predictions for 1999 upward. The economy grew 4.8 per cent last year, fast by regional standards but Taiwan's slowest in 16 years.

"The strong industrial production numbers are actually telling us that economic growth must be much stronger than the 3.7 per cent reported in the last quarter of 1998," said Franklin Poon, economist at ABN Amro Asia in Hong Kong.

Chang Yao-tung, economics ministry statistician, said industrial output was expected to improve "quarter by quarter".

Semicon, a leading memory chip producer, under a state-sponsored merger.

The Financial Supervisory Commission (FSC) alleged that Kim Hyung-byuk, chairman of Hyundai Merchant Marine, and Park Se-yung, chairman of Hyundai Heavy Industries, engaged in insider trading to boost the share price of Hyundai Electronics as it prepared to make a bid for LG Semicon.

The charges against Mr Park drew particular attention since he is also head of

Hyundai's restructuring programme. A reform plan offered by Hyundai this week disappointed the government.

The FSC alleges the Hyundai subsidiaries raised Hyundai Electronics' share price so that state-appointed mediators would select it as the strongest candidate in the merger with LG Semicon.

State prosecutors said they would act on the FSC's recommendations in the first investigation of share price manipulation among the top

chaebol. The two executives could face prison terms of up to 10 years and fines of nearly \$17,000 (£11,000) if found guilty.

The share price of Hyundai Electronics rose from Won14,800 in May to Won32,000 in November as the two Hyundai affiliates spent a total of Won213bn (\$106m) for the shares, according to the FSC.

Hyundai denied it had any intentions to make inside trades since it has retained the shares it bought and has

not engaged in speculative trading.

Analysts said the probe might be a government attempt to force Hyundai to raise its price for LG Semicon, which has stalled the talks to reduce overcapacity in the memory chip sector.

But if the charges are substantiated, it could also force the government to reassess its selection of Hyundai Electronics as proposed owner of the merged company, which would be the world's largest producer of memory chips.

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THE ECONOMY STRONG JUMP IN AVERAGE EARNINGS GROWTH MAY HAVE DASHED HOPES OF FURTHER INTEREST RATE CUTS

Number of people with jobs hits peak

By Alan Beattie and Richard Adams

The labour market continues to show few signs of slowing down, with increased growth in pay and rising employment, according to figures yesterday.

Official statistics showed a small increase in the number of unemployed.

But that was overshadowed by a surprisingly strong jump in average earnings growth, which raised expectations of interest rate increases by the Bank of

England, the UK central bank.

Annual average earnings growth increased to 5.1 per cent in February, its highest since last September, with the headline three-month average rising to 4.6 per cent. The Bank of England believes a rate of 4.5 per cent is consistent with its inflation target of 2.5 per cent.

The Treasury said it was concerned by signs of a return to above-inflation pay rises.

"This underlines the importance of continued

responsible behaviour by the public and private sector to control wage claims," the department said.

There were also sharp upward revisions to earlier estimates of pay growth, reflecting unexpectedly big bonuses in the private sector, according to the Office for National Statistics.

The ONS revised up the headline growth rate for the three months to January from 4.3 per cent to 4.5 per cent.

Dharshini David, UK economist at HSBC investment bank, said the earnings fig-

ures "may stoke fears over the inflationary pressure of the demand for labour".

The chances of another interest rate cut in May could have been reduced, she added.

The minutes of the latest meeting of the Bank of England's monetary policy committee, which sets interest rates, showed it was still concerned about the labour market, despite a unanimous agreement that rates should be cut.

A private survey from the Bank's regional offices

revealed some employers - especially in the service sector - are "hoarding" labour in anticipation of an economic upturn this year.

Yesterday's figures also point to continued tightness in the labour market, with an 80,000 increase in the number of people with jobs during December to February.

This means there are 27.34m in work, the highest level on record. The percentage of the working age population with jobs climbed to 74 per cent.

The ONS said 44,000 of the 80,000 jobs created were full-time, in contrast to recent experience.

But unemployment also increased slightly. The number of people out of work and claiming benefits edged up by 2,000 last month to 1.3m.

On the government's preferred Labour Force Survey - based on national household surveys - the unemployment rate rose by 0.1 percentage point to 6.3 per cent in the three months to February.

Productivity fears remain as Ford plant celebrates

John Griffiths warns that the pressures of over-capacity face carmakers in spite of planned expansion at site east of London

The 4,500 workers on Ford's assembly lines at Dagenham, east of London, last night celebrated their first capacity expansion for two decades. But the real turning point for Ford's 68-year-old plant can be traced to a crisis-torn few months almost a decade ago.

It came with an ultimatum from Bill Hayden, Ford of Europe's manufacturing director. Production of the Mondeo's predecessor, the medium-sized Sierra, would be taken away from Dagenham's poorly-performing workforce, leaving them with just one model, the smaller Fiesta.

And if they could not improve quality and productivity to match Ford's continental European plants, then the Dagenham assembly plant would be shut.

Mr Hayden was not prone to bluff. By his estimates, Dagenham was at least 30 per cent less efficient than its sister plant in Cologne. Quality at Dagenham and Ford's Escort plant at Halewood, near Liverpool, was so poor that all exports of UK-built cars had been banned.

Within 12 months of the ultimatum, Dagenham started moving smartly down the road that would lead to yesterday's announcement of a capacity increase to 450,000 vehicles a year, from 370,000, and new models securing the plant's future into the next century.

With just one model to build, quality improved to the extent that exports resumed after a few months.

A series of changes in working practices narrowed the productivity gap with continental Europe.

Ford insists a gap remains. But yesterday's agreement on new working practices is designed to eliminate it - if, indeed, it exists. According to research by the Economist Intelligence Unit, by 1997 Dagenham had become the most productive of Ford's plants in Europe, with output of 68 vehicles per man per year.

On that basis, Dagenham eclipsed Ford's next best performing plant, Saarlouis in Germany and was well above the European average. Nissan's Sunderland plant in north-east England may have been Europe's outright best performer, with 98 cars per man/year, but Dagenham was ahead of Volkswagen's Wolfsburg plant with 89 cars per man/year and Rover's Longbridge plant near Birmingham with 94.

Yesterday's deal secures Ford's two car assembly plants in the UK for the next decade. Ford's Halewood plant is being transformed into a Jaguar facility. It will start building Jaguar's new "baby" car, the X400, from 2002.

A family of vehicles to replace the Fiesta, and the new small car to be built alongside it at Dagenham, would have to sell disconcertingly for Dagenham to face further threat.

Dagenham has been confirmed for more than a year as the lead manufacturing plant for the next Fiesta cars



Rising hopes: Fiesta models being loaded at Ford's Dagenham plant yesterday

David Ahmed

and vans, and is expected to turn out some 300,000 a year from 2001 onwards. Total demand is expected to be well over 500,000, however, requiring significant additional output at Cologne.

As for the new small car, code-named B257, Ford is giving no details except to reject speculation that it will be a small multi-purpose vehicle.

For all that, Ford executives continued to make clear yesterday that the pressure on Dagenham's workforce to accept further working practice improvements will hardly diminish.

The reasons are not hard

to find. Europe is suffering from 20 per cent overcapacity in car manufacturing. All major carmakers' plants are therefore condemned to compete against each other to build new models for the foreseeable future.

To that must be added fierce competition between new models in the marketplace. Ford's announcement yesterday of further short-term working on the current Fiesta - 17 production days are being cut between May 1 and 31 July - emphasises customers' diminished interest in ageing models.

Ford's hope is that a facelifted version of the current

model, to be introduced in September, will keep Dagenham's lines busier until the all-new Fiesta arrives in two years. Managers accept that last year's output of 250,000 vehicles has little prospect of being matched.

The Dagenham deal marks another step in the renaissance of the motor industry in Britain, even if virtually none of it is now UK-owned.

With the help of £150m in aid from the UK government - none will be sought for Dagenham - a £1.7bn investment by BMW at its Rover plant at Longbridge should lift Rover's total output by at least 200,000 cars a year.

DEVELOPING COUNTRIES MINISTER TO URGE SHARPER FOCUS ON POVERTY

Debt relief 'ineffective'

By Robert Chote, Economics Editor, in Washington

Mechanisms to relieve the debt burden on the poorest nations should be shaken up to ensure they tackle poverty more effectively, Clare Short, the chief minister for international development, will propose today.

Ms Short will tell the Commonwealth Secretariat in London that the scheme to help the world's 40 or so "highly indebted poor countries" - drawn up by the World Bank and International Monetary Fund in 1996 - is ineffective. Countries that qualify see their debt repayments fall by only 2 per cent on average and some end up paying more.

Speaking in Washington yesterday, Michel Camdessus, managing director of the IMF, conceded there was an international consensus in favour of improving the initiative. He said it was more important to broaden

the scheme than deepen it, so that more countries benefited.

But he added that before extending the scheme, it had to be clear that bilateral creditor governments were prepared to inject fresh money. Even the existing scheme is not fully financed yet, Mr Camdessus added, that any extra money must be spent in such a way that countries benefiting were encouraged to persist with economic reform.

Ms Short will argue that the debt initiative has failed to offer countries the "exit" from unsustainable debt that it promised. Uganda - the first beneficiary - now faces a higher debt-to-export ratio than it did at the start of the process, largely because of falling prices for its coffee exports.

But the minister also believes that concentrating on debt-to-export ratios exposes a fundamental flaw in the scheme: it judges the

sustainability of a country's debt burden from the standpoint of restoring its ability to borrow from external creditors, rather than the amount of government revenue that debt servicing diverts from spending on health, education and other public services.

She will argue that the scheme has to be amended to provide a substantial reduction in debt service during the early years of the initiative, rather than providing one big cut in debt owed that will only yield benefits over the many years it would have been repaid.

"We are seeking more use of fiscal indicators in determining debt relief, so that HIPC has a more direct impact - freeing up resources to be switched to anti-poverty spending," she argues. Ms Short will press her proposals at the spring meetings of the World Bank and IMF, which take place in Washington next week.

Fast food follows wages guidelines

By Robert Taylor, Employment Editor

Companies in the low-paid fast food sector have adjusted their wage rates substantially in line with the introduction of the national minimum wage, according to a report by Incomes Data Services, the independent research organisation, which is published today.

It indicates that McDonald's, Pizza Hut and Burger King have all improved their wage rates and also announced employment expansion.

However, while Pizza Hut has actually cut its hourly rate for staff aged under 21 to £3.00 (£4.83) an hour in line with the government's youth rate, Burger King has set a £3.60 an hour rate for those aged 16 and over, which is the national recommended adult figure.

The survey lists 15 companies in low-paying sectors

that are complying with the minimum wage and increasing employment. These include Kingfisher, Pizza Express, Granada, Stakis, Somerfield and Dixons.

The survey also says the government's decision to set the minimum wage at £3.60 an hour for adults of 22 and over has had "only a marginal effect on many industries" with little evidence of any knock-on effect on the pay of other workers. The report also says there has also been "little evidence of any negative employment effect".

"This confirms evidence from official statistics which show significant employment growth in the service sector in distribution, hotels and catering," adds the report.

It also found that the impact of the minimum wage had been "minimal" on changes in work organisation.

Blair signals sea change for trade unions

By Robert Taylor, Employment Editor

Tony Blair's enthusiastic backing for a conference on new trade unionism promises to be a defining moment in the emergence of a new relationship between the Labour government and the worker representatives.

It suggests the prime minister's doubts and suspicions about the willingness of the trade unions to abandon their old attitudes have gone. "I endorse the clear message of the TUC's report that Britain works best when unions and employers work together," he writes in the introduction to the Trades Union Congress report to be presented at the London conference next month.

The prime minister's apparent conversion is a

strong gesture of approval to the modernising efforts of John Monks, the TUC's general secretary. Mr Monks has sought to persuade critics that trade unions are now part of the solution to Britain's problems, rather than a part of them.

He is convinced the unions now have a "once in a generation opportunity" to reshape Britain's industrial relations culture, rebuild trade union organisations and promote collective bargaining. He believes the newly adopted minimum rights-on working time, guaranteed paid leave, unpaid maternity and parental leave marks a "decisive shift" in public policy approach from that adopted by the previous Conservative government.

The TUC wants to show that these developments are

not concessions to union power, but a necessary condition for better performance, higher productivity and profit in the modern workplace.

"The government's goal of a dynamic and competitive economy is most likely to be secured where workers are treated fairly, where they have real control over day-to-day work-related decisions, and where unions are able to shape employers' strategic objectives," says Mr Monks.

The actions of a growing number of unions, including the TGWU general union, the AEEU engineering union, Unison, the public services union, and the GMB general union suggest all of this is more than rhetoric.

The TUC has established six principles for partnership in the workplace, between a

company and trade union representing employees. The first is a "shared commitment to the success of the enterprise", ensuring the replacement of a previously hostile and adversarial atmosphere of industrial relations.

This is followed by a recognition of legitimate interests, accepting that there might be differences of priorities, so that partnership arrangements can "embody a degree of trust and respect".

The third principle is a commitment to employment security, and one of accepting job flexibility. This means limiting compulsory redundancies and making joint agreements on staffing.

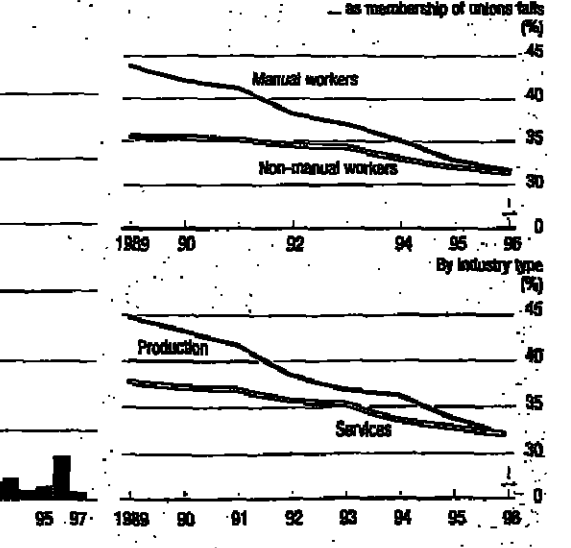
The fourth principle is that there must be a focus on the quality of working life so the partnership com-

mitment is based on something concrete. Partnership has to be transparent with genuine consultation and with commitment from companies to listen to employees and their unions. Finally, it requires adding value to the workplace.

By citing specific success stories of workplace change through partnerships, the TUC hopes to spread the practice and encourage companies to see that working with unions will improve their business performance. All of this would seem unexceptional in other European countries, but the new TUC approach marks a clear and decisive break with past traditions in the UK.

The TUC believes employers will have to allow unions to exercise greater influence over strategic decisions. It will require managers to

Unions and business draw closer



relinquish some control, changing workplace culture from a command structure, to one of problem solving. Ideally, the TUC favours the creation of a range of

partnership institutions, ranging from work councils to a national forum. Mr Blair is not so keen on that approach. However, his unequivocal endorsement of

partnership indicates a significant convergence of attitude. It will be up to the unions to translate good intentions into practical action.

NEWS DIGEST

CAR BOMB AFTERMATH

Irish PM joins concern over probe into murder

Bertie Ahern, prime minister of the Irish Republic, added his voice to nationalist concerns over the independence of the police investigation into the murder of Rosemary Nelson, the lawyer killed by a car bomb in Northern Ireland last month. However, he declined to endorse the family's call for the British government to allow an independent international inquiry.

Mr Ahern told the Dail, the Irish parliament, that the two English police officers and the FBI, appointed to assist the Royal Ulster Constabulary, had to be allowed to conclude their investigation before any decision is made on an inquiry into alleged police collusion in the murder. But he added: "We have continued at political and senior official level to press the British government to do more."

However, he added he did not want to say too much publicly at a time of sensitive negotiations in the peace process in which progress is stalled over the refusal of the Irish Republican Army to start disarming before the formation of the power sharing executive.

The case has attracted international attention with the US House of Representatives on Tuesday calling on Britain to launch an inquiry totally independent of the Royal Ulster Constabulary (Northern Irish police) "to gather evidence, conduct the ground investigation and issue a detailed, public report on the murder". John Murray Brown, Dublin

EUROPEAN UNION WITHHOLDING TAX

UK will use veto, says Blair

Tony Blair, the prime minister, yesterday sought to rebut claims that the government was softening its opposition to the proposed European Union-wide tax on savings by insisting it was prepared to use its veto to protect the interests of the City of London.

Mr Blair said Gordon Brown, the chancellor, had made clear at last weekend's informal meeting of EU finance ministers that the government would not accept the existing proposals for a withholding tax. Asked in the House of Commons if the government was prepared to use its veto to block the measure, Mr Blair said: "We will not hesitate to use our veto if it is necessary."

The government position is that it would not accept the proposed withholding tax without an exemption for international bonds. This reflects City fears that imposing such a tax would drive the international bond market out of London. David Wighton, London

SCOTLAND

Independence 'deficit' claim

An independent Scotland would immediately have to cut public spending to deal with the large structural deficit which it inherited, an independent study concluded yesterday. It would not be feasible to make a sharp increase in taxes because that would drive away businesses and personal taxpayers.

The ruling Labour party called the report a devastating blow to the Scottish National party's policy of an independent Scotland. But the report also criticised Labour's "tartan tax", the Scottish parliament's power to vary taxes by up to 3p in the pound (4c in \$1.61), saying it would have been better if it had never reached the statute book.

The report, by DTZ PricewaterhouseCoopers for Bell Lawrie White, the Edinburgh stockbroker, said Scotland would be economically viable as an independent country. But it would inherit a "negative dowry" in the form of a larger fiscal deficit than that of the UK, though smaller than recent government figures suggested. James Buxton, Edinburgh

MILLENNIUM COMPUTER PROBLEM

Institutions 'still at risk'

Two large financial institutions are still at serious risk of failing to bring their computer systems up to scratch to deal with the millennium "bomb", the Financial Services Authority, the industry's regulator, warned yesterday.

Michael Foot, head of financial supervision at the FSA, said the two groups still featured on a "red alert" list despite intense pressure from regulators for them to stop up their work on the computer problem expected in 2000. Ten other groups classified as "high impact" because of their size or their importance to the financial markets have moved off the red list since the end of the year.

A recent survey by Ernst & Young, the accountancy firm, showed the UK and Denmark were the two European countries whose financial sectors were at least risk from the millennium bomb. George Graham, London

CANTRADE AFFAIR

Trader ends hunger strike

The currency trader who was at the centre of the island of Jersey's biggest-ever fraud has ended a hunger strike that lasted 59 days. Jersey is the largest of the Channel Islands between England and France.

Robert Young, 45, who was jailed last May for four and a half years for his role in the Cantrade affair (in which clients claimed to have lost £16m (\$25.8m)) through his currency deals, said in a press release that he had achieved his aim of drawing media attention to the state of human rights in Jersey.

He lost an appeal against conviction in January and is still trying to get legal aid to take his case to the European Court of Human Rights. He claims that he did not receive a fair trial and that the way in which he is being treated is "less than human". Philip Jeune, Jersey

A political cartoon by Bromley. The central figure is a man whose torso is a large bottle of 'FEDERAL APPROVED' brandy. The bottle has a label with 'FEDERAL APPROVED' in large letters, and smaller text below including 'REGISTERED TRADE MARK', 'BOTTLED AT THE DISTILLERY', 'JAMES WATSON & CO. LTD.', 'GLASGOW', and 'LONDON'. The man is wearing a top hat and a suit jacket, with his arms outstretched. He is standing on a wooden bridge or walkway. To the left, a large foot is visible, suggesting a giant is about to step on him. To the right, a large crowd of people is gathered on the bridge, looking towards the man. The signature 'BROMLEY' is in the bottom right corner.



Science under scrutiny

As Aids activists pushing for "fast-track" access to life-saving therapy have high-

Likewise, FDA advisory committee hearings, which recommend the approval or rejection of new drugs, are held in public. A wide variety of experts, including patient advocacy groups, are asked for their opinions. But, as critics point out, the experts on the panel may well work as consultants for

Such differing verdicts are often a reflection of a society's view of acceptable risk, a phenomenon highlighted by the contrasting attitudes to genetically modified food in the US and Europe. They also reflect attitudes to existing treatment options. If there is deemed to be no great medical need, there is less pressure to introduce a new treatment.

"Americans understand the FDA, which speaks their own language," says Paul Evans, managing director of Akos Healthcare, a UK-based consultancy that specialises

leads to semi-automatic approval throughout the European Union.

Japan, the world's second-biggest drugs market, is still out of step, although even here the environment is changing. Traditionally, Japanese authorities have insisted that drug companies conduct a series of extra trials to prove their medicine works as well on the Japanese population. Many products widely available in the west, such as the contraceptive pill, are not yet licensed in Japan.

Pressure from drug compa-

Such pressure on Japan to change its methodologies, say critics, reflects the undue influence drug companies can have on regulators. To supporters it demonstrates a shift to more standardised regulation.

But whatever approach a country takes, there is one fundamental problem that is difficult to overcome. That is the fact that clinical trials, however large, cannot possibly pick up all the side-effects a drug may produce once given to the population at large. The first patients to be prescribed a licensed

hidden correlations. "There will be a lot of medicines approved that are going to have side-effects show up later," says Dr Brewer.

Only by developing accurate methods of monitoring those, he argues, will society be able to take sensible decisions about safety and efficacy of drugs at its disposal.

This weekly series concludes next week with an article on how scientists should be managed and motivated.

Philips Semiconductors has adopted a different approach to the problem of high voltages. It has developed a way of fabricating high voltage transistors in an extremely thin layer of silicon and surrounding each one with silicon dioxide. The use of this perfect insulator allows high and low voltage components to be placed much closer together

research organisation, is working with Du Pont, the chemicals manufacturer, to develop better catalysts for paint manufacturing.

They have come up with a range of cobalt catalysts that has made the manufacturing process cheaper, more efficient and environmentally friendly.

The catalysts allow very accurate control of the polymerisation process during paint manufacturing.

By means of the catalyst, the manufacturer can design paints for specific purposes and sharply reduce the amount of solvent used.

CSIRO: Australia, tel 613996627332; e-mail doug.gale@molsci.csiro.au

Vanessa Houtder

[illegible]

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THE ARTS

CINEMA

Outsiders in a world of their own

Martin Hoyle is enchanted by Bertolucci's elegiac love story

Bernardo Bertolucci's exquisite miniature leads the field this week. A wistful Chekhovian study of elliptical approaches and puzzled retreats, cultural cross-purposes and fleeting emotional fulfilment, *Besieged* is a virtual

BESIEGED

Bernardo Bertolucci

MESSAGE IN A BOTTLE

Luis Mandoki

SIDE STREETS

Tony Gerber

THE MISADVENTURES OF MARGARET

Brian Skeet

OUT OF THE PRESENT

Andrei Ujica

THE BRYLCREEM BOYS

Terence Ryan

LEVEL FIVE

Chris Marker

two-hander, beautifully acted by Thandie Newton and David Thewlis.

Newton, recently in *Beloved*, plays the wife of an African political prisoner. An exile in Rome, she trains in medicine and ekes out a living by cleaning for another outsider, an English composer who gives piano lessons in a sumptuously furnished apartment. The shy Mr Kinsky loves the beautiful Shandurai, but once repulsed, and told of her jailed husband, he lapses into sad-eyed non-communication. She notices the flat gradually emptying of works of art, tapes

tries, furniture and even Kinsky's beloved piano; and realises that he is working for her husband's release. Neither of them refers to it.

There is little dialogue in the film. Cinematically Bertolucci rings changes in narrative pace as a speaker might, sliding into elegiac slow motion or fast-forwarding like a story teller varying vocal rhythms and emphases. In contrast with a characteristically decorative background (the action is situated near the Spanish Steps; Rome looks beautiful), the story unfolds in strokes as delicate and economic as a Chinese water-colour, from the arrest of Shandurai's husband in an opening African sequence that leaves his wife mouthing silent screams in the dust of departing jeeps, to Mr Kinsky's final concert, a recital for his juvenile pupils variously rapt, restless or tempted by the sunny garden outside. With a visual dash of Richard Rodney Bennett and the apologetic middle-class tones of a young Robert Stephens, Thewlis plays the musician as a very recognisable English eccentric: gentle, repressed to the point of inarticulateness, more at ease with children than adults. The message, perhaps, concerns a sophisticated society in decline paying an old debt to another world and that emergent world tentatively groping towards freedom. But it works movingly as a simple love story.

Message in a Bottle tries for the same restraint but is made of grosser clay. Robin Wright Penn, whose cheekbones are one of the wonders of the western world, plays a journalist who discovers the eponymous communication, a love letter to his dead wife from small-town boat-builder Kevin Costner. As in *Sleepless in Seattle*, the intrigued woman tracks him down and, surprising nobody except the immaculately made-up character actresses who staff American newspapers, they fall in love. No surprise either that



Moving: Thandie Newton in Bertolucci's exquisite miniature, 'Besieged'

he finds out he has been a journalistic gimmick and splits. And hardly astounding that he realises he loves her, cheekbones and all, and writes a last East Coast-bottled farewell to the shade of his wife. Despite a downbeat ending the tone is lethargic, the action predictable. Costner plays selflessly piano, thick of girth and unashamedly middle-aged; but the most touching performance comes from Paul Newman as his father. No longer playing on that boyish winsomeness, Newman provides a marvellous example of the frailty, sadness and anger of old age that steals the movie entirely.

If O. Henry were alive he might have written *Side Streets*, but the entwined stories would have been tighter and more pointed than the script provided by Lynn Nottage and director Tony Gerber for this portmanteau from the Merchant Ivory stable. This tapestry of hopes, fears, comic

misadventure and plans of little people ganging up on the Hudson has been commended at both Venice and Sundance. These New Yorkers, be they Indian, Italian, Caribbean, Romanian or Puerto Rican, lead lives of noisy desperation. Their loves, squabbles and scams are endearing, if sprawling; while the sad farce of an overweight Indian film idol on the skids hints at something more tragic.

There's such a surface gloss on *The Misadventures of Margaret* that you initially will it to succeed, to be funnier than it is. Then you lose interest. Based on the American Catherine Schine's novel, *Rameau's Niece*, this attempt to combine various genres - American academic satire, historic swish, sex comedy - founders on the central role. As the prize-winning writer who researches an eighteenth-century philosophical-amatory affair between a celebrated savant and

a sensual young girl, Parker Posey, fidgety and physically mannered, has difficulty in uttering lines as if she understands them, never mind fresh-minting them. Visual references to pre-war screwball comedy are ill-advised since director Brian Skeet's script is short on jokes though long on the F word. A decent cast is wasted, though the radiant Brooke Shields plays a bisexual bursting with that vivid, ennobled, slightly unreal femininity that drag queens die for.

Like most of this week's releases, *Misadventures* looks good. Inevitably dowdier is *Out of the Present*. This fly on the wall 1981-2 diary of life in the Russian space station MIR conveys both the claustrophobic tackiness of the physical conditions and the childlike wonder of the humans involved. Among the crews on shift duty is our own Helen Sharman, so scrupulously avoiding subsequent publicity that we

have forgotten the Anglo-Russian enterprise (the Union flag much in evidence). Among the images that linger: a jockey dressing for dinner, she in pink frills and a male colleague illustrating the incongruity of wearing a tie in zero gravity as it sticks out straight as a ramrod in front of him (Freud would have loved space). A lighted Christmas candle somersaults slowly in the air. Strauss waltzes slyly nudge memories of 2001 but the lack of glamour comes over. The cosmonauts cut one another's hair, exercise, play with the camera, giggle... One craft sprouts a silver parachute, an animated glitter-ball that languidly inflates, writhes, detumesces, a huge floating jelly-fish. In the home country there is insurrection. By the time Sergei Krikalyov, a constant despite the turnover amongst his colleagues, returns to earth after a record 310 days in space, the Soviet Union has gone. Sweet-natured and gentle, he looks bemused, almost as

if he would welcome the weightless detachment of space once more.

The French press blurb - typically untranslated - for Chris Marker's *Level 5* engagingly quotes Kipling as it describes the veteran director as "affligé comme l'enfant d'éléphant d'une insatiable curiosité"; but this 1997 meditation on reality and virtual reality, history, turning the clock back and que voulez-vous is no just-so story. A woman talks to camera about the computer game her suicide boyfriend left, based on the battle of Okinawa, when the Japanese population, fearing American atrocities, committed mass suicide. Husband killed wives, parents children. We meet survivors and recall those two terrible Shakespeare characters, "a son that has killed his father" and "a father that has killed his son". Archive film and interview are unfortunately larded with uniquely Gallic pretentiousness. Why, asks our narrator, do the coffee spoons disappear when she serves her *tarde latin*, her culinary triumph, so that guests must stir their coffee with forks? *La home!*

Home is not the word for the risible *Brylcreem Boys* which manages to waste a potentially fascinating topic. During World War II Ireland even-handedly interned both Allied and German combatants who strayed or dropped into the Republic's territory - sometimes in the same camp. This film, beneficiary of some Isle of Man financial deal, splatters the screen with every dramatic and visual cliché imaginable: hatchet-faced, Brit-hating Irish, lovable, Allied-supporting Irish, Hunks with doelling scars, North Americans who naturally assume leadership in the British quarters, a civilised German ("We are ze same, you and I"), and even, God help us, a knees-up in a country pub choreographed by one of the *Blindside* performers. Peter Woodward gives the most breath-takingly hammy performance since the days of Bransby Williams as an all-snarling, all-eye-rolling, all-leering Cherman sadist. Gabriel Byrne, one of the co-producers, displays a disgracefully slovenly self-indulgence as the camp's commander, apparently unable to decide between menace and Irish whimsy and giving the impression that he's making his lines up as he goes along. The prisoners' break-out is engineered simply by giving the guards a bottle or two and letting inevitable drunkenness do the rest: a strategy I would consider deeply insulting if I were Irish.

Poetry staged in the lap of the gods

THEATRE

ALASTAIR MACAULAY

Tales from David Royal Shakespeare Company

Mortals presuming upon gods, and gods being heartless to humans... It is a tribute to Tim Supple's Royal Shakespeare Company production of Ted Hughes's *Tales from Ovid* that the audience comes out talking of the tales, of Hughes, and of Ovid. Whereas in Homer part of the thrill is the ease with which gods and mortals co-exist, in Ovid mortals are forever having to learn - the hard way - that gods are a race apart.

Ovid's mortals are not heroic. And some of these are cautionary tales. We follow the tales of Midas and the golden touch, or Semele wanting to see Jupiter naked in his full divinity, almost as

we do Hilaire Belloc's these, are tales about false values or of blinding ambition in which the protagonist is punished for folly. Others are canny tales explaining the origins of things: so that's why a narcissus, or a spider, is like *that*. But sometimes here humans are punished for being excellent (Arachne at her loom) or for telling the truth (*Tiresias* on gender and sexual pleasure). And sometimes the gods are kind: Myrrha, struggling in vain with incestuous desire and pregnant now with her father's son, is not only turned to myrrh but even gives birth to Adonis. The strangeness of the world - both tragic and comic - becomes marvellous.

The eloquence of many of Hughes's lines - often those that are furthest from Ovid - brands itself onto the theatre audience. "The petal of her beauty/ Fading and

shrivelling, falling from her", "Juno rose/ Like a puff of smoke from a volcano." "The warm drops ooze from her hind." And - here Supple and his co-adaptor Simon Reade have juggled with

In Ovid mortals are forever having to learn - the hard way - that gods are a race apart

Hughes's original text to good effect - "Just bristled up his thighs/ And poured into the roots of his teeth." "Revenge/ Had swallowed her whole being."

Meanwhile Supple's staging of these tales has often poetry of its own. Echo, fading away, rolls softly into a

pile of leaves to dissolve. The scenes woven by Minerva and Arachne at their looms - as vividly described by Ovid and Hughes as the scenes related by Homer on the shield of Achilles - become three-dimensional tableaux. Myrrha becomes swathed in fabric until she does indeed become a tree. Pentheus's head vanishes as Agave rips it off; and she - like Procne - becomes stained by the blood of her own sons.

Not all the ingredients are ideal. The music by Adrian Lee is full of beauties, spanning from Java to the Mediterranean in its soundworld, but Sylvia Hallett's singing is too cracked. In Strine Saba's handsome Myrrha, I recognise neither a princess nor a tragic conflict with moral conscience nor Hughes's poetry. Susannah Elliott-Knight is vivid in character roles (notably

Juno), but coarse in narration. Why is the introduction to the terrible tale of Myrrha made funny? And, by the musicians, jolly?

Yet this is an enthralling production. Supple gets from his 10 actors a wonderful kind of innocence, so that they enact these tales with childlike enthusiasm; and also a Brechtian detachment, so that they narrate them with adult distance. Molly Still's costumes - now Grecian, now Asiatic, now almost Renaissance - have many ravishing colours (Semele's blue dress) and details (the grapes on Bacchus's crown). The tales of Arachne and Tereus form the climaxes of each act. One hangs on them, as if they had never been told before.

Sponsored by Laphroaig, in RSC repertory at the Swan Theatre, Stratford-upon-Avon



Mark Boner and Sarah Walton in a scene from Tim Supple's enthralling production

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
● La La La Human Steps: the Canadian dance company in Salt; Apr 26, 27
● Nederlands Dans Theater I: programme of works by Inger Lightfoot, Kylian and Van Manen; Apr 23

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Ottello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Gruber, with a cast led by Vladimir Bogachov; Apr 22, 25

CHICAGO
CONCERT
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
NKH Symphony Orchestra: conducted by Charles Dutoit in works by Gubaidulina, Stibelius and Prokofiev, with violin soloist

Sarah Chang; Apr 27

FLORENCE

CONCERTS
Teatro Comunale
Tel: 39-055-211158
www.maggioreteatro.com
Orchestra del Maggio Musicale Fiorentino: conducted by Semyon Bychkov in works by R. Strauss and Brahms, with piano soloist Andrea Lucchesini; Apr 22, 23

OPERA
Teatro Comunale
Tel: 39-055-211158
www.maggioreteatro.com
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a staging by Lev Dodin, in a co-production with Netherlands Opera and Opéra National de Paris; Apr 24, 27

FORT WORTH
EXHIBITION
Kimbell Art Museum
Tel: 1-817-3328451
www.kimbellart.org
Gifts of the Nile: Ancient Egyptian Faience. More than 200 works, including statuettes of kings, gods and animals ranging over 5000 years; to Apr 25

HOUSTON

OPERA
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
Resurrection: world premiere of

Tod Machover's new opera set in Tsarist Russia, with a libretto by Laura Harrington. Patrick Summers conducts a staging by Brahm Murray, with designs by Simon Higlett; Apr 23, 25

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● Amsterdam Baroque Orchestra: conducted by Ton Koopman in works by Rameau, Bach, Boccherini and Mozart, with cello soloist Yo-Yo Ma; Apr 23
● Plácido Domingo: zarzuela concert, with the Orchestra of the Royal Opera House conducted by Miguel Roa, soprano Ainhoa Arteta and mezzo-soprano Cecilia Diaz; Apr 25

Queen Elizabeth Hall
Tel: 44-171-960 4242
London Mozart Players: Matthias Bamert conducts works by Bach, Beethoven, Mozart, and Michael Nyman. Featuring Bruno Leonardo Gelber on piano, David Juritz on violin, and Judith Busbridge on viola; Apr 22

Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: Christian Thielemann conducts in works by Schumann, Mozart, and Brahms; Apr 22

EXHIBITION
National Gallery
Tel: 44-171-638 3321
Ortales by Ingres: Images of an

Epoch. 40 paintings and 50 drawings by the 19th century French painter. Includes major loans from museums in France, the US and elsewhere; to Apr 25

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic: conducted by Alan Gilbert in works by Bernstein, Ruggles, John Williams, and Copland; featuring David Beldenthal on bassoon; Apr 22, 24, 25

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● European Brass Band Championships; Apr 24
● Munich Philharmonic Orchestra: conducted by Manfred Honeck in works by Wolf and Tchaikovsky; Apr 22, 23

NAGOYA

EXHIBITION
Nagoya/Boston Museum of Fine Arts

www.nagoya-boston.or.jp
Monet, Renoir and the Impressionist Landscape: this inaugural show at the new museum comprises more than 60 examples of 19th century French landscape painting. Key works include "Grainstack (Sunset)" (1891) by Monet and Van Gogh's "Houses at Auvers" (1890); to Sep 26

NAPLES

OPERA
Teatro di San Carlo
Tel: 39-081-797 2331
Il Barbiere di Siviglia: by Rossini. Gabriele Ferro conducts a staging by Filippo Crivelli, with a cast led by Leo Nucci; Apr 22, 25

NEW YORK

CONCERTS
Avery Fisher Hall
Tel: 1-212-875 5030
www.lincolncenters.org
New York Philharmonic: conducted by Colin Davis in the world premiere of James MacMillan's "The World's Ransoming", with English horn soloist Thomas Staoy. The programme is completed by Bruckner's Symphony No. 9; Apr 22, 23, 24

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
18th Century French Drawings in New York Collections: highlights of a century of collecting, featuring 100 outstanding

examples by 59 artists including Watteau, Boucher and Fragonard; to Apr 25

OPERA
Metropolitan Opera
Tel: 1-212-362 6000
www.metopera.org
Susannah: by Floyd, James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Apr 22

New York City Opera
Tel: 1-212-870 5570
www.nycoopera.com
Intermezzo: by R. Strauss. New staging by Leon Major, conducted by George Manahan; Apr 24

PARIS

EXHIBITION
Grand Palais
Tel: 33-1-4413 1730
Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor, painter and friend of Van Gogh; to Apr 26, then transferring to New York

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Lohengrin: by Wagner. Conducted by Mark Elder in a staging by Robert Carsen; Apr 22, 25

TOKYO

EXHIBITION

Tokyo Metropolitan Art Museum
Tel: 81-3-3823 6921
Masterpieces from Washington's National Gallery of Art: works on loan by artists including Renoir, Degas, Monet, Cézanne and Van Gogh; to Jul 11

OPERA
New National Theatre
Tel: 81-3-5352 9999
Die Fledermaus: by J. Strauss. Conducted by Yukio Kishihara in a staging by Kyoko Fujishiro, directed by Hironori Terasaki; Apr 22, 23, 24, 25

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COMMENT & ANALYSIS



QUENTIN PEEL

Outdated alliance

Is Nato past its sell-by date? It was useful as a weapon of deterrence. But it is ill-suited to the war in Kosovo

Let us pause for a moment, as the great and good gather in Washington to mark the 50th anniversary of the North Atlantic Treaty Organisation, with Kosovo top of their agenda. Let us look back to the world as it was when Nato was born. It was a moment of extraordinary tension in Europe. In February 1948, Jan Masaryk, the Czech foreign minister, was assassinated in Prague, as part of a communist coup. It was a brutal demonstration of Stalin's determination to impose communist rule throughout the area of Soviet occupation.

There were real fears that both France and Italy might fall to communist rule as well, and Washington was actively planning for military intervention if they did so. In June that year, the Soviet blockade of Berlin began, and the allied airlift was launched to keep the western part of that city alive.

In April, 1949, Nato was founded. And in September, the USSR detonated its first atomic device.

It was, in short, the start of the cold war for real, and a very explosive start, too.

How the world has changed. Today, the Russian threat is of collapse, rather than aggression. The country is bankrupt. And Moscow's miserable failure to suppress the revolt of Chechnya in its own backyard suggests that it could scarcely mount a serious conventional onslaught on anyone else if it wanted to.

Of course, Russia still has a huge arsenal of nuclear weapons, and that threat is unpredictable: no one knows if the weapons remain under adequate control or even if they remain operable. Democracy in western

Europe is thoroughly established. The communists have reinvented themselves as good social democrats, not just in the west, but in central Europe.

The Czech Republic has joined Nato, along with Poland and Hungary. Their negotiations to join the European Union are well under way. All the former Soviet satellites are eager to join the western club.

And a thoroughly democratic, unified, federal Germany - with all the confusion and indecision that implies - has just celebrated the return of its parliament to Berlin.

With the one glaring exception of former Yugoslavia. It is a fairly reassuring scenario. But the Nato leaders will undoubtedly be obsessed with the exception. Thanks to their ill-considered intervention in Kosovo, and the bombing campaign they have launched, they will be urgently attempting to close ranks, and find a way of bringing that undeclared war to a rapid conclusion. What they will not be

thinking about is the question that is going begging: Is Nato itself past its sell-by date?

It is no doubt a disloyal question to ask at this moment. Perhaps it is too late. It was asked back in 1991, when the Warsaw Pact was wound up, and the Soviet Union imploded. But it was rapidly dismissed as an irrelevance. After all, most of the old enemies wanted to join. And if it wasn't broke, why fix it?

The trouble is that the conflict in Kosovo, and the terrible human tragedy which has been unleashed there, does not just raise questions about Nato's tactics. It revives questions about the very structure and purpose of the organisation.

Every important success achieved by the alliance in its 50 years was won without a shot being fired in anger. But now the first shots have been fired, and the cracks are starting to emerge.

Nato's success was precisely as a weapon of deterrence, as one side of a military standoff which actually guaranteed the

peace. The combination of strategic and conventional capacity ensured that neither side dared disturb the peace in Europe.

Today the alliance boasts massive military capacity without any countervailing balance. It is a mighty weapon, without an obvious role. The temptation is to use it, even if it is inappropriate.

In Kosovo, that has happened. Awesome technological equipment, represented by US-led air power, has been used as a hammer to crack the nut of a horrible, localised, medieval war. It not only appears to be failing. It actually seems to have made matters worse.

In an articulate and persuasive new study of the transatlantic relationship, Elizabeth Pond, former Christian Science Monitor correspondent in Moscow and Bonn, says Nato emerged from the cold war "with glory and perplexity". Its victory should have put it out of business. In the event, it was the Europeans, from both east and west, who decided (back in 1991) that Nato was "the only possible instrument" to keep the US engaged in Europe.

One reason, she argues, was the danger of "imperial recidivism" in Russia. Another was the "conspicuous preference" for American security leadership over the alternatives of German leadership, or no leadership. The third was the belief, because of the atrocities in former Yugoslavia, of the need for "credible force" - which only the Americans could provide - to constrain local bullies on the peripheries of Europe.

All those reasons for preserving Nato can be queried today. As far as Russia is concerned, the threat of an unpredictable response, such as some crazed nationalist threatening to use its nuclear weapons, is more likely because of the alienation caused by Nato's continued existence, and enlargement. The alliance may be seen as a benevolent force among its member states. But many outsiders suspect its motives, and not just in Russia.

As for maintaining a credible force to deal with the likes of Slobodan Milosevic, it is questionable whether the sort of force the US brings to Nato is relevant. It is becoming increasingly clear that his vicious militia can only be stopped on the ground. But that is precisely the sort of war Bill Clinton wants to avoid at all costs.

But what about the desire to preserve American security leadership in Europe? There lies the nub. Perhaps the time has finally come for the Europeans to resume security leadership on their own continent.

The US did not want to be involved in Kosovo. It is, thank goodness, a reluctant sheriff on the world stage. If Nato had not existed, and had not offered the option of a massive US-led bombing campaign, then the Europeans would have been forced to tackle Milosevic with more modest, and possibly more effective, means.

As for the Europeans, they continue to hide behind US security skirts. They did not even attempt to solve Kosovo alone, because they have ceded "security leadership" to Washington. The brave words of Tony Blair and Jacques Chirac at St Malo, promoting a new effort at building a European defence identity, are likely to remain so much hot air as long as they rely on US leadership in Nato.

The alliance should be replaced by a genuinely European defence initiative, which would finally allow the US troops on the European continent to go home. It is ridiculous to suggest that the US will remain bound to Europe only if it has soldiers on the spot. The two-way economic ties of investment and trade are now so great - in spite of silly squabbles over bananas and the like - that the two sides of the Atlantic are condemned to ever closer cooperation.

If both sides can eventually realise that, it may be the one positive lesson to emerge from the present sorry story in Kosovo.

The Rebirth of Europe, by Elizabeth Pond. Brookings Institution Press, price \$26.95

LETTERS TO THE EDITOR

Envious of consumers' right to know

From Mr Mark Vallianatos and Ms Sarah Newport.

Sir, Stuart E. Eizenstat claims that "scientific rigour and the transparency of our testing methods help explain why US consumers have accepted the many biotechnology products that are now sold in the US" ("Why we should welcome biotechnology", April 16).

Mr Eizenstat's claim is misleading. With no labelling system in effect for genetically-modified foods, US consumers at present have no way of knowing that

the food products they purchase may be genetically altered. Most Americans are unaware that they routinely eat foods containing genetically-modified ingredients and should, therefore, not be assumed to have "accepted biotechnology".

Furthermore, Mr Eizenstat's opinion that biotechnology will contribute to environmental protection is not supported by scientists who warn of the emergence of "superbugs" and "superweeds" that will disrupt local ecosystems and

threaten global biodiversity. As Americans, we envy the respect shown by European governments for the consumer's right to know. We hope Europeans will maintain their precautionary approach to the regulation of GM organisms even in the face of threats from the US government and industry.

Mark Vallianatos and Sarah Newport, Friends of the Earth US, 1025 Vermont Avenue NW, Suite 300, Washington, DC 20005, US

Period of uncertainty is not weakening Indian democracy

From L. Hari Gopal.

Sir, The headline "Indian instability" for your April 19 editorial was not appropriate. The present crisis is inherent in any parliamentary democracy when multiple parties hold seats and no one party is dominant. True, coalition politics is an evolving phase in the Indian political system, and is fraught with uncertainty which is causing much damage to the economy. However, to characterise this phenomenon as weakening the democratic system, as your headline implies, is not correct.

In 1947 the people of India decided on a democratic form of government and have cherished it ever since. The only assault on this took place during the "emergency

era" under Indira Gandhi. However, many Indians (including this writer) realise that corruption and lawlessness have increased since then, undermining the benefits of democracy. Nevertheless, every effort has been made to strengthen democratic institutions.

Western journalists trying to evaluate Indian democracy should resist the temptation to be condescending as they attempt to use their own yardsticks. I am surprised that the FT has chosen this path - this has usually been the preserve of the American press.

L. Hari Gopal, 723 Superior Ct, # 203, Naperville, IL 60563, US

Words swapped for weapons

From Mr Rick Johnson.

Sir, I cannot believe what I have just heard the US president say on the news: that we should learn to "reach out with words instead of weapons to resolve conflict".

He was talking about the tragic killings at the high school in Littleton, Colorado. How can Bill Clinton say

this at the same time as he is using weapons to resolve the conflict in Yugoslavia "instead" of words?

Rick Johnson, founder, Telecommunications and Health Benefits Institute, 953 Buchanan Road, Burns, Oregon, US

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Luxury comes at a price

The French luxury goods group LVMH has decided to take its high-stakes battle for Gucci to court, says Alice Rawsthorn

Bernard Arnault must rue the day in 1994 when Investcorp, the Bahrain-based banking group, offered to sell him Gucci for roughly \$360m. He said no.

Five years on, Mr Arnault, chairman of the French luxury goods group LVMH, wants Gucci so badly he is prepared to make an offer valuing the Italian fashion house at \$3.7bn.

A critical court case beginning in Amsterdam today will determine Mr Arnault's next step. If LVMH wins, Mr Arnault will proceed with his offer. If it loses, LVMH will have built a \$1.4bn stake in Gucci to little avail: its influence over one of the world's hottest luxury goods labels will be dwarfed by a larger stake controlled by Francois Pinault, a rival French industrialist. Worse still, Gucci and Mr Pinault threaten to build a luxury empire to rival LVMH, which is named after the original merger between Louis Vuitton and Moët Hennessy.

How did Mr Arnault, dubbed the "wolf in cashmere clothing" for his astute handling of past acquisitions, land himself in such difficulties? And, having been outmanoeuvred by Gucci, can he engineer a dignified solution to salvage LVMH's investment and his reputation?

Back in 1994, Gucci was an ailing brand tarnished by years of mismanagement. Investcorp bought it from the founding family in 1993 and appointed Tom Ford, a talented, young Texan designer to modernise its fashion collections. Investcorp floated it in Amsterdam, one of Europe's more accommodating stock markets, in 1995.

By then, Mr Ford had turned Gucci into a sought-after label for fashion cognoscenti. He and Domenico De Sole, Gucci's president, have since expanded it by opening new stores and introducing new products. Mr Arnault has tried to mastermind similar revivals at his fashion houses, Christian Dior and Givenchy, but has failed to match Gucci's commercial success.

Mr De Sole and Mr Ford, meanwhile, plotted their



Bernard Arnault of LVMH



Tom Ford of Gucci

own shopping spree, realising that Gucci could not expand indefinitely without endangering its luxury status. They began 18 months ago by buying Severin, a Swiss watchmaker, only to put their expansion plans on hold when the Asian luxury market crashed.

Late last autumn, the luxury industry appeared poised for recovery and Gucci's shares rallied. Mr Arnault realised Gucci would either become a takeover target, or start building a luxury goods empire to compete with LVMH.

Mr Arnault began buying Gucci shares in late November.

supervisory board. Gucci looked trapped. But on February 18, Morgan Stanley, its adviser, came up with a masterly defensive move: Gucci "neutralised" LVMH's holding by issuing the same number of shares to its employees.

In doing so, Gucci was exploiting an arcane Dutch law that allows companies to issue new shares if threatened by hostile minority investors.

LVMH sued Gucci to nullify the employee share option plan (ESOP). It also appointed ABN AMRO, the Dutch bank, as co-adviser with Goldman Sachs.

Last autumn Mr Arnault realised that Gucci would either become a takeover target or start building a luxury goods empire to compete with LVMH

ber. On January 6, he disclosed that LVMH owned more than 5 per cent of the equity. At that point, analysts calculated LVMH could buy Gucci for \$4.3bn by bidding \$70 a share.

A month later, LVMH had raised its stake to 34.4 per cent. Under UK and US stock market rules, it would have been obliged to mount a full bid upon owning 30 per cent, but not under Dutch law.

Anxious to prevent LVMH from exercising "creeping control" as a minority investor, Mr De Sole and Mr Ford offered to stay if it made a full bid. Mr Arnault refused. Advised by Goldman Sachs, he demanded the right to appoint nominees to Gucci's

But Gucci was searching for a "white knight" to stave off Mr Arnault, and in March it found one in Mr Pinault, founder of the Pinault-Prats-Redoute (PPR) retail group and a loyal Morgan Stanley client.

On March 19, Gucci disclosed it had secretly completed a deal to sell new shares worth 40 per cent of its equity to Mr Pinault for \$2.9bn.

The immediate effect was to dilute the LVMH stake in Gucci from 34.4 per cent to 19.6 per cent. Mr Pinault also bought Yves Saint Laurent, the French fashion house, and other beauty brands from Sanofi, the French pharmaceuticals company,

with the intention of selling them on to Gucci.

A furious Mr Arnault, who coveted the Sanofi brands himself, sued a second time to revoke the deal with Mr Pinault. He also offered to do what he had refused before: mount a full bid for Gucci. He reinforced his team of financial advisers by bringing in a third investment bank, Credit Suisse First Boston.

LVMH has since proposed several offers accompanied by conditions that Gucci says are unacceptable. For its part, LVMH argues that PPR's stake makes it impossible for an unconditional offer to succeed.

The next twist in the saga will be determined by the final hearing of LVMH's legal claims in Amsterdam. If the judge upholds the share issues to employees and PPR, Mr Arnault will be powerless to stop Gucci from using Mr Pinault's \$2.9bn to reinvent itself as a conglomerate, starting by buying YSL. Barring a new legal ruse, LVMH will have little choice but to gradually sell its diluted holding.

But if Mr Arnault is vindicated, the Dutch court will initiate an investigation that could result in both deals being voided. Mr Pinault might stage a full bid for Gucci, rather than risk being left with the Sanofi brands. LVMH could then withdraw, with face-saving profit but with a formidable new foe.

To forestall that, Mr Arnault seems intent on fighting on to win control, beginning with a charm offensive to woo Mr Ford. Mr De Sole is committed to leaving if LVMH takes over, but Mr Ford has yet to voice his intentions.

LVMH hopes to persuade him to stay as Gucci's designer, knowing its \$3.7bn bid would be a pyrrhic victory if it lost the man responsible for Gucci's revival.

Whoever wins the bruising battle for Gucci, the spectacle of two French groups exploiting quirks in Dutch law to gain control of an Italian company may trigger reforms in Europe's fragmented financial markets. As for the \$60bn luxury goods industry, it will never be the same.

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Thursday April 22 1999

Tragedy in Colorado

The scenes of horror at a high school in suburban Denver demand a response but deny us an easy explanation.

The most obvious call, stronger outside the US than within the country itself, is for tougher gun controls. And there is the widespread judgment that such a tragedy was inevitable in a society fed a diet of ever more violent imagery.

But the troubling conclusion is that tighter restrictions on guns and on brutal imagery would not necessarily have guaranteed protection to the students of Columbine High School, one of Colorado's more successful schools.

Early indications are that studiously "gothic" and racist outcasts were responsible for calmly plotting the attack, which seems to have been carried out with a callousness as disturbing as the violence itself. They appear to have targeted religious and ethnic minorities, as well as athletes, whose social acceptability they regarded with contempt.

It is clear that school authorities, and not just in the US, need to find ways of influencing students whose hostility has gone far beyond conventional expressions of adolescent angst.

Columbine students have explained that the gang's members routinely threatened classmates and openly discussed their obsessions with violence.

While guns are not the direct

cause of US school violence, they have played a role in seven school incidents over the past 18 months. One of the alleged murderers told a classmate before the attack that he was irritated by the short waiting period imposed on purchasers of semi-automatic weapons.

It is clear that relatively easy access to weapons means that guns play an unusually prominent role in US life and violence. In response, metal detectors have been installed in many of the country's tougher schools.

Though tighter restrictions on guns offer no guarantee, they would help lessen the potential dangers. Background checks on buyers must be more extensive, particularly for first-time purchasers, and the types of guns available over the counter must be more tightly controlled, as must be the carrying of concealed weapons. Until yesterday, the Colorado legislature was debating an easing of gun controls.

US leaders are now asking about whether a diminishing sense of community is the root cause of the violence at Columbine High. It is almost impossible to measure the rise or fall of such an abstract concept, but a society which places a just emphasis on "personal freedom" must be alert to expressions of "freedom" that deny its citizens the ultimate freedom.

Rubin's views

When Robert Rubin talks, the world's financial community listens. In his speech yesterday, the US treasury secretary, gave a clear indication of how far US official opinion has moved in response to the exceptional events of the past few years.

Mr Rubin holds fast to the belief that "a market-based system provides the best prospect for creating jobs, expanding economic activity and raising living standards". Yet he also recognises that "the experience of the past two years has provided important insights on how we can best go forward". So, indeed, it has.

Perhaps clearest of all, the world has learned something about exchange rates. As Mr Rubin notes, "at the centre of each recent crisis has been a rigid exchange rate regime that proved ultimately unsustainable". From this he concludes, rightly, that the international community should provide large-scale finance to countries intervening heavily to defend an exchange rate peg only in exceptional circumstances.

Currency boards are a possible exception. In the extreme, countries may even wish to adopt another currency as their own. Dollarisation, much discussed in Latin America, is evidently of interest to the US. While not opposing the idea, Mr Rubin warns that it would be inappropriate for the US to

extend bank supervision, provide Federal Reserve lender-of-last-resort facilities or alter US monetary policy, in response. Yet these warnings do at least seem to leave open the possibility of sharing seigniorage.

Mr Rubin's views on exchange rates are of particular interest, but what he said in at least two other areas is well worth talking.

First, he is fairly tough on private creditors. He reminds them that those who are well rewarded for taking high risks cannot be surprised if debts are not always paid in full, or on time. Moreover, official funds should occasionally go to countries in arrears to private creditors. Again, provisions in bond contracts should be changed to facilitate creditor co-ordination.

Second, Mr Rubin notes the case for limiting emerging market exposure to short-term foreign currency debt. He does not even reject the idea of taxing such flows, though "like all controls, they can be difficult to administer and can decline in effectiveness over time".

It is neither feasible nor desirable to eliminate the risk of financial crises. The only way to do so would be to eliminate financial markets altogether. Nevertheless, "the world can be made a safer place. Mr Rubin's speech suggests a few important steps are being taken towards that objective."

Terror in Timor

Far away from Kosovo, a human catastrophe of a similar nature is unfolding in East Timor. The former Portuguese colony, which was annexed by Indonesia in 1976, has been offered a choice between autonomy and outright independence by Indonesia's new president B.J. Habibie.

Regrettably the offer has been accompanied by an alarming upsurge of violence instigated by pro-Jakarta paramilitary forces, apparently armed by the Indonesian military and bent on terrorising the population into rejecting independence.

Indonesia's offer was a welcome and unexpected change from the approach of former President Suharto. But the violence is also an indication of how little control the government exercises on the ground, even over its own armed forces. It underlines the widespread concern that lawlessness could spill over into the rest of the region.

This week Mr Habibie has accepted the need for international support in organising a referendum on his offer later this year. Yesterday also brought a formal truce between warring parties in the territory.

How long it will last, though, is questionable. Ultimately some form of international peacekeeping force will be needed to safeguard transition in East Timor, as well as the right of its people to determine their own future.

Organising such a force may be

difficult given that Nato governments are distracted in Kosovo, while Asia is pitifully unable to resolve problems on its own doorstep. Chinese or Japanese peacekeeping troops would be unthinkable, while neighbouring countries have little stomach either. Even Australia, Indonesia's close neighbour, has misgivings about shouldering too much of a burden alone.

A UN presence in East Timor would be less controversial if Indonesia had accepted Portugal's right to recover its sovereignty as a prelude to formal independence. Ideally that would be the outcome of today's talks between Indonesia and Portugal at the UN. But the solution is unlikely to be that simple.

East Timor's small population would struggle in the current climate of violence and recession to be viable as an independent country, while Portugal has been careless in shedding its colonies; witness the current fiasco in East Timor. A long period of transition with East Timor enjoying autonomy within Indonesia seems desirable.

But this solution will only work if law and order prevails. Even from Mr Habibie's point of view, therefore, an outside peacekeeping presence will be needed. The sooner all sides accept this fact, the better. Mr Habibie may be a lame duck, but now he has opened the issue, it cannot be closed.

In terms of European politics, Deutsche Telekom's plans to merge with Telecom Italia have pitched pugnacious Teutons against interventionist Romans.

While Italian ministers flapped over Deutsche Telekom's potential dominance of the proposed new group, the Bonn government attempted to remain detached. It stuck as closely as it could to a policy of not intervening in commercial matters - insisting plans to sell off its 73 per cent stake in Deutsche Telekom only "over time" remained unaltered.

The German gave some ground in its letter to the Italian government yesterday by indicating that it would support the idea of equality between the two companies in the boardroom. Furthermore, it had its own reasons for not being pushed into a premature sell-off of its stake. It wants to time any sale to maximise the proceeds, and so help the strained federal budget.

Nonetheless, Germany's tactics have demonstrated more than lip service to the idea that Europe's biggest companies should be exposed to full international market forces without political interference. "When we say privatisation, then we mean it," says one Bonn finance ministry official. "Unlike Italy! We don't have a golden share."

The government has demonstrated a similar attitude in its handling of Deutsche Post, the German mail service due for privatisation in the second half of 2000. To the alarm of postal rivals in other countries, Deutsche Post has embarked on a spree of foreign acquisitions unhindered by the government.

Uncharacteristically, Gerhard Schröder, Germany's Social Democratic chancellor, is taking a low profile. As state prime minister in Lower Saxony until last September's election, he even bought a local steel works from the Hannover-based Preussag group to prevent it falling into foreign hands. But in today's federal government, "intervention is a dirty word," claims one SPD-affiliated finance ministry official.

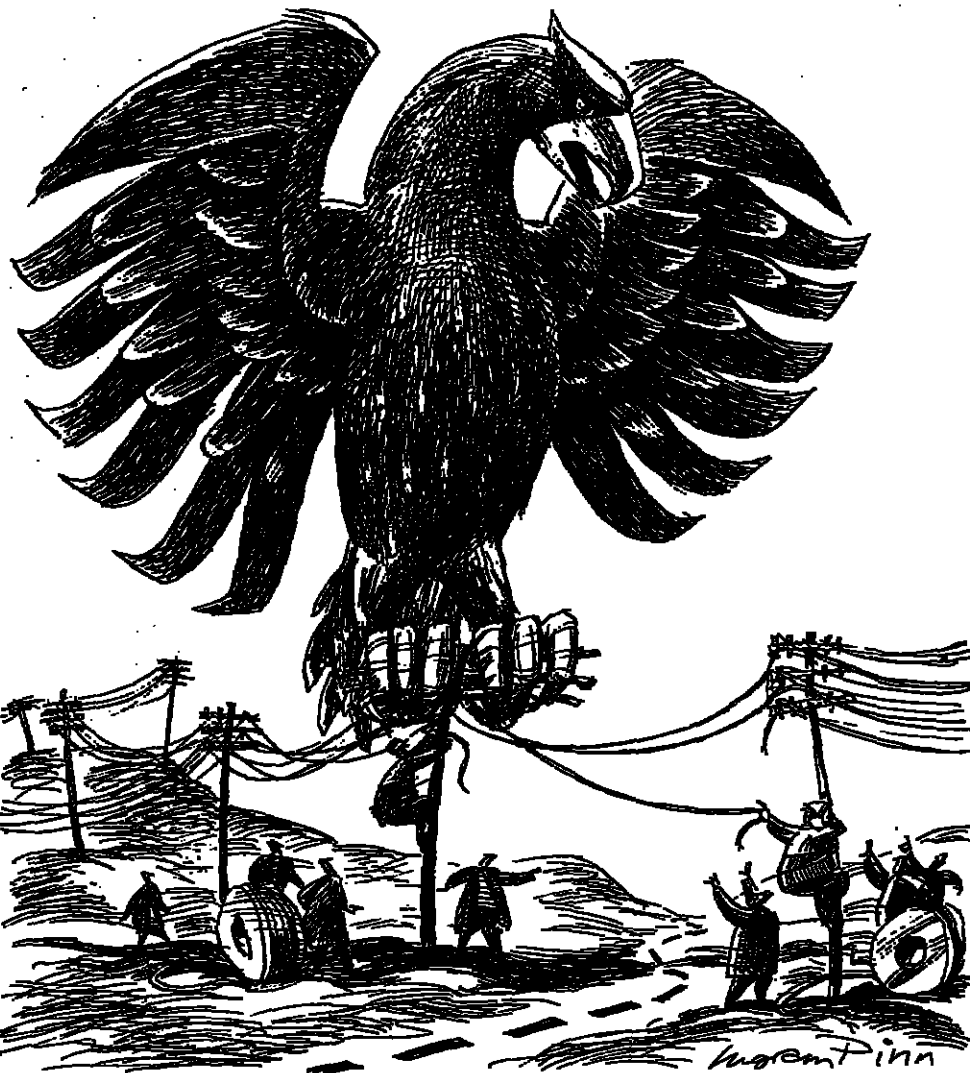
The same has not been true in Italy. Despite claims of neutrality, the Italian government has been actively involved in the Telecom Italia saga since Olivetti, the telecoms group, first launched its €60.4bn bid for the former Italian state telephone monopoly in February.

Roberto Colaninno, the Olivetti chief executive, had previously made the rounds of the Rome political palace. Had he not been given positive signals by the government, he would probably

COMMENT & ANALYSIS

Keeping above the fray

Germany's attitude to state ownership contrasts starkly with that of Italy, write **Ralph Atkins** and **Paul Betts**



have had second thoughts before embarking on such a grand adventure. Indeed, Massimo D'Alema, the former Communist prime minister, initially expressed his open support for Olivetti's bid.

Subsequently, Mr D'Alema retracted and has since insisted he was taking, along with the rest of his government, a neutral stance in Europe's biggest postwar takeover battle. Even so, a large section of the government has appeared to be rooting for Mr Colaninno and Olivetti.

The fact that both the government, with a 3.4 per cent stake in Telecom Italia and the Bank of Italy with another 2.3 per cent, failed to show up when Telecom Italia attempted to assemble enough shareholders to approve

its original defence plan against Olivetti was widely seen as confirmation of the government's pro-Olivetti position.

Its stance demonstrates the unwillingness of Italian political parties and the government (with the possible exception of Carlo Azeglio Ciampi, the economy minister) to abandon deep-rooted interventionist instincts. If anything, these have intensified with Europe's economic and monetary Union and globalisation of business, despite a far-reaching Italian privatisation programme.

The fear is that Italy, with its relatively weak structure of large industrial and financial groups would become open to a foreign corporate invasion as the country's old protective barriers broke down. The country's traditional

industrial strength has come from its dense network of small and medium-sized enterprises.

The fate of Telecom Italia has proved this point. Its privatisation left the company with a particularly weak core of supportive shareholders accounting for barely 7 per cent of its voting capital. Large US and UK management investment funds had acquired by far the largest stake, with about 40 per cent. The government was clearly uncomfortable, especially since it continued to regard the company as strategic to the country's interests and a national champion.

The Olivetti bid offered an Italian solution to the problem. If successful, it would finally give Telecom Italia strong Italian ownership. Moreover, Mr Colan-

inno and his financial partners, mainly small and medium sized industrialists and financiers from the rich north of the country, were seen, on the surface at least, as representing an evolution in Italian capitalism with a new breed of small, aggressive entrepreneurs replacing the old big business and political networks of Turin, Milan and Rome.

Unfortunately for the government, Franco Bernabè, Telecom Italia's chief executive, refused to play the Italian game. After the initial shock of finding most of the government supporting his rival, he decided to fight back taking the battle on an international scale.

The tensions culminated at the start of this week when Mr D'Alema insisted on German government commitments to ensure parity in the merger and the privatisation of Deutsche Telekom.

For a while, the German government appeared in a dilemma. Should it make concessions to Italy so the deal could proceed? In reality, it had little choice but to maintain its stance. Deutsche Telekom is planning a capital increase in June. Stock markets could not have been expected to absorb the sale of government shares as well in the short term.

Over the medium term, the government made a strong Deutsche Telekom price if it is to maximise privatisation receipts. "The financial framework within which the government is moving is very tight," says Ulrich Ramm, chief economist at Commerzbank in Frankfurt.

Moreover, to have made overt concessions in favour of Deutsche Telekom would have exposed Bonn to charges of discrimination. Mannesmann, the Düsseldorf-based group which is Deutsche Telekom's strongest domestic challenger and also has telecoms interests in Italy, had already warned the government had to take an impartial stance.

But the fact that it has been forced to spell out its adherence to commercial freedom could have wider implications for Bonn's hitherto sluggish privatisation programme. This has failed to match the pace seen in some other countries, and has not fully captured the public imagination.

Mr Ramm of Commerzbank argues "there is a lot of privatisation potential" in Germany given the government's holdings in Deutsche Bahn, the federal railway and Deutsche Post. If the German government is so clear about divesting management control, it may not be long before it decides to sell its economic interests as well.

Bad echo down the line

Alan Cane describes the effect of the proposed merger on the tangled lines of Europe's telecommunications alliances

In the telecommunications industry, small changes in ownership send ripples through alliances, partnerships and cross-shareholdings. Large realignments such as the proposed merger between Deutsche Telekom and Telecom Italia could have repercussions on a grand scale.

One example is the potential effect on France Telecom, which in recent years has been deepening its relationship with Deutsche Telekom and will have to rebuild its international strategy. The two companies are equal partners in Atlas, an alliance designed to provide communications services to multinational customers. Atlas, in turn,

is a partner with Sprint of the US in Global One, an international alliance established for the same purpose.

The future of Global One is in question. Sprint has refused to approve the venture's spending plans for this year because of poorer than anticipated financial returns. The partners are still negotiating on the issue.

France Telecom is also a partner with Deutsche Telekom in WIND, a new fixed and mobile operator in Italy in which the electricity utility Enel has a majority stake. France Telecom has already made clear that Deutsche Telekom would have to pull out of the deal if the Telecom Italia merger goes ahead.

In Germany, the merger will dash Olivetti's hopes of acquiring Deutsche Telekom and damage the growth plans of Mannes-

mann's telecoms arm. One of Europe's fastest growing telecoms groups, Mannesmann had agreed to buy the telecoms interests Olivetti already owned in the event of a successful bid for Telecom Italia.

A merger would also have big consequences for the Austrian market where both Deutsche Telekom and Telecom Italia have made significant investments. Deutsche Telekom has just bought out most of the other shareholders in max.mobil, Austria's second largest cellular operator - a development which Ron Sommer, Deutsche Telekom's chairman, said exemplified the group's plans to improve its competitiveness in Europe.

Even in combination, Deutsche Telekom and Telecom Italia lack sufficient assets outside their borders to become a global player immediately. They do not add up to an international strategy," says Tim Hills of the UK consultancy Analysts.

The Italian company, however, does have strengths in Latin America which could pose a threat to the expansionist plans of Telefonos, the Spanish operator. Moreover, a combination of Deutsche Telekom's mobile interests with Telecom Italia Mobile would create a substantial European player - a mobile operator capable of challenging Vodafone/Airtouch.

OBSERVER

Blood's thicker than water

Goldman Sachs may become just another big financial corporation next month when it abandons 130 years of partnership and launches its initial public offering. But it retains a few vestiges of the family firm it once was. When the newly formed Goldman Sachs Inc appears, its board will include John L. Weinberg, the son of Sidney Weinberg, who more or less created the modern Goldman Sachs during 40 years in charge. John also ran the firm, though he managed only a 14-year stint which ended in 1980. But he's still seen on the trading floor, exhorting the troops with his enigmatic rallying cries. "Trees don't grow to the sky" is one favourite.

It doesn't end there. His son John S. Weinberg jointly heads the unit in charge of corporate client relationships, while Peter Weinberg, Sidney's grandson and John L's nephew, is, among other things, deputy chairman of Goldman's European operation.

Both men will be members of Goldman's partnership committee, which will help distribute goodies from the partnership pool - part of an effort to maintain the traditional values fostered by their grandfather. Family firm it may no longer be, but Goldman

still remembers its roots.

Trading places

Bangkok isn't best pleased. A couple of years ago Washington put Thai banks up by showing indifference to a little local economic difficulty - which turned out to be the start of the Asian crisis.

Now the Thais are feeling scrubbed again. Prime minister Chuan Leekpai is annoyed that the US has given a lukewarm response to Thailand's candidate to head the World Trade Organisation.

The battle to become trade supreme is still deadlocked, though the US insists that Washington, which backs New Zealand's Mike Moore, wouldn't block Bangkok's man Supachai Panitchpakdi if a consensus emerges.

That line might not assuage Thailand's wounded pride for long. And its prime minister has the reason to hope Supachai did make it to Geneva, his criticisms of the government's economics won't exactly be missed.

Benign bankers

Theodoros Karatzas, top dog at the National Bank of Greece, wants to do good in the world. As Nato's war in Yugoslavia rumbles on, the Greek government is calling for more

investment in war-weary Albania and Macedonia to help stop the region from falling apart. Karatzas has given the go-ahead for his state-owned bank to expand its branch network in lawless Albania. Profits may be slim at first, but there's plenty of mattress money around.

There's also something of a windfall opportunity at home. Greek banks are turning at government plans to hold back bank credit and keep inflation down. They'll have to pay heavy penalties if their loan books overshoot the quarterly ceiling of 3 per cent growth.

But not National. It may be Greece's biggest bank, but because National increased loans by much less than its rivals last year, Karatzas will be able to attend to needy borrowers who can't get attention elsewhere.

And Observer thought there weren't any good samaritans left.

Mipsprint

ABN Amro, the dour Dutch bank, is shuffling a little further towards transparency.

Its chairman Jan Kalf revealed yesterday that last year he'd earned just over \$750,000, plus share options. Exact amounts for what directors netted will have to wait till next year.

But Kalf did note their options were "barely in the money". That's partly because ABN Amro's underperformed since its

failed lunge at Générale de Banque in Belgium last May - a fact not reflected in the report and accounts set out yesterday. Instead of leading Amsterdam's AEX index, as two charts purport to depict, the bank has been a laggard.

The snafu was discovered too late even to insert erratum slips into the 116,000 copies being distributed worldwide. ABN has been fulsome with the apologies. But it's quite a boo-boo. And, even if time allowed, it would have taken a chunk of Kalf's salary to pulp the lot and reprint.

Slacking off

Stackers in recession-plagued Colombia are about to get a rude awakening. A conservative congressman wants to lift the economy by doing away with Colombia's endless bank holidays.

Under his outrageous scheme, Colombians used to 18 official holidays a year would be left with a mere five.

Even worse, he wants to repeal one of the best loved laws in Colombian jurisprudence, which shifts most holidays to Mondays, providing long weekends galore.

But opponents of the bill needn't lose any sleep. Unions and politicians aplenty have vowed to fight the proposal to the bitter end.

That is, if they're not too busy taking a siesta.

Financial Times

100 years ago

The finances of Monte Carlo Gambling is one of the primary instincts of human nature, and until human nature undergoes a radical change, people will continue to indulge the propensity. Nowhere in the world, however, is this propensity - or vice, if the name be preferred - more scientifically catered for or more thoroughly exploited than at Monte Carlo. The report of the Casino Company brings to light the fact that the receipts of the tables for the fiscal year ended 31st March last amounted to the astonishing sum of 24,500,000 francs, or £980,000. The sum represents the gross profits of the tables, or, the loss which the speculative public suffered as a result of indulging in Rouge et Noir or Trente et Quarante.

50 years ago

Lancashire cotton mills All cotton firms in Lancashire are waiting for the Government orders relating to price control. The change will have an important effect upon the industry. The Yarn Spinners' Association has advised its members that the Board of Trade has decided to revoke the orders in which cotton and cotton waste yarns are statutorily controlled in price.



FINANCIAL TIMES

THURSDAY APRIL 22 1999

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THE LEX COLUMN

Engaged tone

The €175bn (\$187bn) merger between Telecom Italia and Deutsche Telekom was still struggling last night to haul itself on to the runway. Even if it succeeds, will it ever get airborne? The odds are looking healthier. The first potential deal-breaker has been dodged, if not wholly overcome.

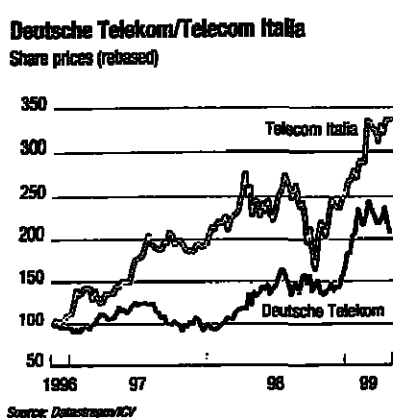
Despite the German government's refusal to cave in to Italian demands that it sell quickly, or waive voting rights over its 72 per cent stake in Deutsche, the deal still seems intact. In part, this reflects the determination of Franco Bernabè, Telecom Italia's chief executive, to consummate it. He seems willing to accept a mushy compromise whereby Bonn promises not to use its 40 per cent stake in the merged group to intervene in its affairs. Given this, the Italian government is surely unlikely to use its golden share to block the deal.

Mr Bernabè is certainly going to need all his grit. Formidable obstacles to the deal remain. For one thing, the European Commission is threatening to haul it through a long investigation. There is also the issue of management. Talk of an annually rotating chairmanship suggests fudgy consensus-based decision-making in excelsis. In price terms, the expected opening shot of €12 a share implied by Deutsche's closing price looks reasonable. If it is above Olivetti's €11.50 rival bid - if not by much. But Olivetti has an advantage: its offer is further advanced and faces fewer obstacles. Mr Bernabè still has much persuading to do.

US accounting

Last dip in the pool, anyone? The FASB, the US accounting watchdog, has finally plucked up courage and outlawed pooling of interests - those wonderful rules under which General Motors could buy the corner dealership and call it a merger of equals, thus preventing tax and goodwill charges from depressing earnings.

In the short run, this may even accelerate merger and acquisition activity as companies rush to deal before the new rules come into force in late 2000. But investment bankers are worried about the longer-term impact on their business. Not without reason. Pooling mergers have grown from 2 per cent to more than



30 per cent of all M&A transactions in the US over the past seven years. In fact, FASB is doing everyone a favour. By eliminating pooling it will force investors and managers to drop their unhealthy obsession with accounting earnings and look at cash flows instead. That will force companies to think harder about whether a deal creates real value. Sensible transactions will still get shareholders' backing, as Vodafone/Airtouch has proved, and those based on financial engineering and accounting tricks should become harder to make. It also brings the US into line with international practice, levelling the playing field for foreign bidders.

Endesa Chile

Whatever the result of the bruising bid battle between Spain's Endesa and Duke Energy of the US for control of Endesa Chile, the real winners will be the electricity generator's 49,000 minority shareholders. Throughout the contest, Chile's stock market regulator, the SVS, has never lost sight of the real issue: the rights of the little people against the eight powerful pension fund administrators that together hold a deciding 26 per cent stake in Endesa Chile. The SVS has scrupulously amended the bid timetable so all investors will have ample opportunity to re-tender their shares to the winning offer once it emerges tomorrow.

As for the bids themselves, Duke's offer, at 275 pesos for 60 per cent, is cleaner since it mops up more of the

free-standing shares in Endesa Chile, whose price is expected to plunge once one or other bidder gains control. But the Spanish contender's higher offer of 380 pesos a share, albeit for just 34.7 per cent of the equity, gives it the edge. Since it holds 25.3 per cent and is getting cosy with the pension funds, it will probably get the majority it wants easily.

The wider question for Chile, in need of new investment in the electricity sector, is which group provides the vision and deep pockets to realise the country's potential as the power hub of Latin America. Both have promised much, although Duke's proven record in energy trading and marketing makes it look the better bet on this score.

Bank of Scotland

With Bank of Scotland's share price close to its all-time high at the start of this week, some profit-taking looked in order. But if the reason for yesterday's share price fall was the 22 per cent rise - to £268m (\$431.5m) - in debt provisions, this is a bit depressing. It is a negligible price to pay for operating profit growth of 18 per cent - to more than £1bn at ongoing businesses. And with evidence mounting of a soft landing for the UK economy, the cynical view that BoS has bought market share through imprudent lending will barely be tested. Its history is, in any case, much freer of banana skins than the likes of Barclays or National Westminster. And the risks attached to its largely domestic lending are rather less than those of a Standard Chartered with its emerging market bias.

The challenge for BoS is to keep repeating the trick of expanding lending by around 15 per cent a year while curbing costs. With a UK market share of less than 7 per cent, the volume story has some way to run. But as interest margins are squeezed and bad debt provisions nudge up, it becomes more difficult to show double-digit earnings growth. A more normal tax bill should help this year, economic recovery next.

Some might justify BoS's premium to several of its peers in terms of potential merger activity. That looks premature, and after yesterday's price fall no spice is needed beyond organic growth prospects.

US urges end to IMF aid for pegged exchange rates

Rubin's shift in stance aims to prevent emerging market crises

By Stephen Fidler in Washington

The US signalled yesterday that big international financial packages led by the International Monetary Fund should, as a general rule, no longer be used to support pegged exchange rates.

The shift in approach came in a significant policy speech by Robert Rubin, US treasury secretary, before this weekend's meeting of leading finance officials of the Group of Seven industrialised countries and the spring meetings of the IMF and World Bank.

His remarks reflected developing views on how the global financial system should be altered to reduce the frequency of financial crises of the type that have afflicted emerging economies since Mexico's devaluation in 1994. Crises in Asia, Russia and Brazil have all stemmed from pegged exchange rates that proved unsustainable.

Mr Rubin said emerging economies should adopt either a flexible exchange rate or a strong institutional mechanism such as a currency board that would fix a credible rate. "As a matter of policy, we believe that the international community should not provide exceptional large scale finance to countries intervening heavily to defend an exchange rate peg," he said.

But he allowed caveats where such support might be available - for example, where institutional arrangements were strong or when a devaluation would pose risks to the international financial system - the policy suggested by his speech would presumably have ruled out the large financial packages for Russia and Brazil that ended in failure.

Mr Rubin said he believed those judgments were correct but it was "important to shape expectations about the official response going forward, as this will have an important impact on policy choices and we want to strengthen incentives for the adoption and maintenance of sustainable exchange rate regimes". His speech also emphasised the US desire to see contracts in bond issues

changed to improve creditor co-ordination in the event of a financial crisis. He also said official finance should continue to be available to some countries in arrears with private creditors.

Reflecting growing concern about the use of offshore financial centres to circumvent regulation, he said increasing the capital that banks set aside for lending to offshore institutions could help discourage tax supervision by offshore centres.

Mr Rubin also went further than previously in accepting that a Chilean-style tax on short-term capital inflows could be appropriate. He continued to insist that they should be seen as transitional measures that did not substitute for fundamental reform of financial systems.

He added that rules on bank capital should be updated quickly to expand the number of credit-risk categories and revise the rules on loans to sovereign borrowers.

IMF spring meeting, Page 4
Editorial Comment, Page 11

Sonia Gandhi to try to form minority government in India

By Mark Nicholson in New Delhi

India's president yesterday asked the Congress party, headed by Italian-born Sonia Gandhi, to consider leading a government to replace the ousted Bharatiya Janata Party coalition.

Mrs Gandhi said after a meeting with K.R. Narayanan, the president, that she would seek to form a minority government but would need two days to shore up parliamentary support.

Doubt was thrown on her claims of support, however, when communist and regional parties refused to commit themselves to supporting Congress.

They insisted instead on a secular coalition led by Jyoti Basu, the veteran communist chief minister of West Bengal. In a further twist, Mr Basu's own party later rejected his candidacy.

Mrs Gandhi said Mr Narayanan had asked her to "explore the possibility of a Congress-led government".

but had also required written proof that her party could command a majority in the 543-seat house. She claimed she could provide this "within two days" and that Congress would "form a government on its own, with outside support".

However, though Congress is second only to the BJP in India's fragmented parliament, it has only 142 MPs.

The BJP, meanwhile, submitted to the president letters of support from its own allied parties, claiming it had the backing of 270 MPs - just two short of a working majority. L.K. Advani, a senior BJP leader, said the move aimed to show that the BJP was the only party that could provide a stable administration.

They insisted instead on a secular coalition led by Jyoti Basu, the veteran communist chief minister of West Bengal. In a further twist, Mr Basu's own party later rejected his candidacy.

Mrs Gandhi said Mr Narayanan had asked her to "explore the possibility of a Congress-led government".

that several important allies, including the 37 MPs of the Rashtriya Loktantrik Morcha, had still not been persuaded to back her party, but said she was confident of winning their support. She refused to confirm that she would be her party's candidate for prime minister.

Meanwhile, a special sitting of parliament failed to pass the BJP's budget, despite this week's agreement between Congress and BJP leaders to approve the finance bill without amendments. Parliament was repeatedly adjourned as BJP MPs disrupted proceedings, protesting that Congress was indulging in "horse-trading" to secure a majority.

Mr Narayanan summoned senior BJP leaders, including Yashwant Sinha, finance minister in the ousted coalition, to urge them to rein in BJP parliamentarians and pass the bill. Mr Sinha said after the meeting that he expected the budget to pass today.

Reluctant joins the hopeful, Page 5

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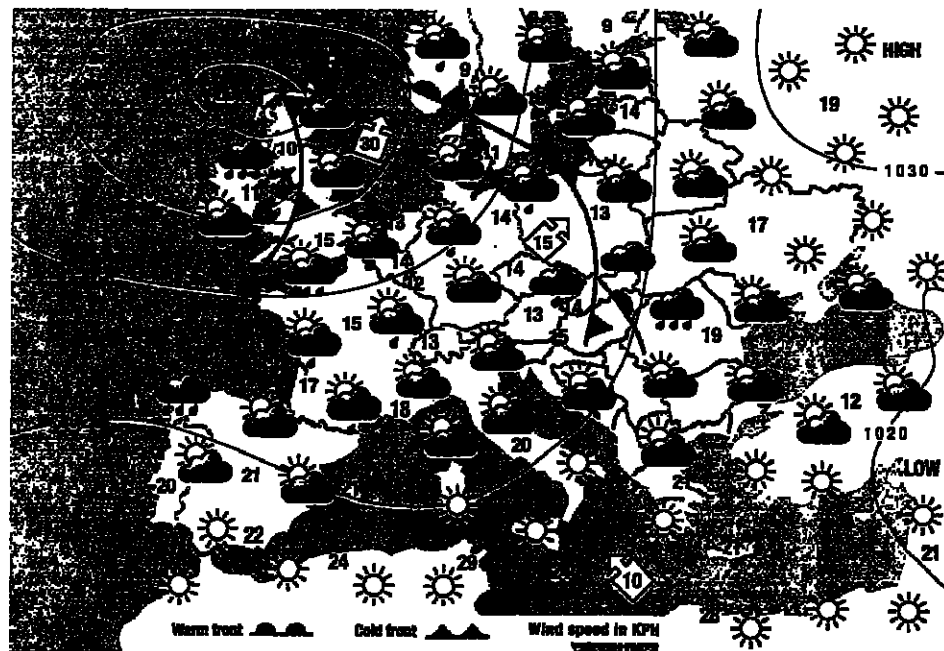
FT WEATHER GUIDE

Europe today

Western France, the Low Countries and northern Germany will have showers while central France and southern Germany will be drier. Poland and the northern Balkans will see more persistent rain but the southern and western Balkans will be dry with sunshine. Central and eastern parts of the Mediterranean will have sunshine. Southern Spain will be sunny but cloud will move into the north-west followed by rain. Most of Scandinavia will have sunny spells, but showers will move into the south.

Five-day forecast

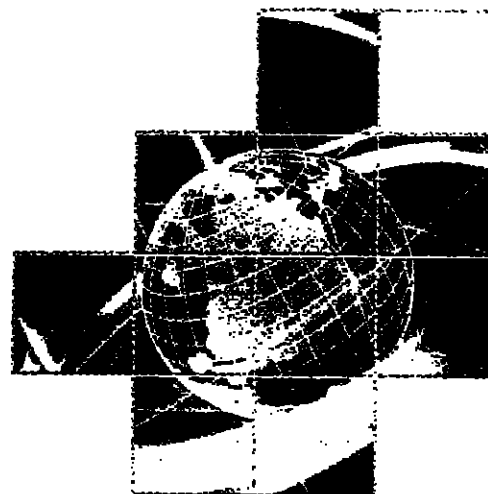
North-western Europe will be unsettled with rain. Central Europe will be mainly dry tomorrow but will see outbreaks of showery rain over the weekend. The Mediterranean will be mainly sunny but northern Spain, Italy and Greece will have showers at times. Scandinavia will be showery but relatively mild.



Situation at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

TODAY'S TEMPERATURES

| Location | Temp |
|--------------|-----------|
| Abu Dhabi | Sun 34 |
| Accra | Fair 34 |
| Algiers | Fair 24 |
| Amsterdam | Shower 13 |
| Athens | Sun 21 |
| Atlanta | Sun 29 |
| B. Aires | Fair 25 |
| Bham | Shower 14 |
| Bangkok | Shower 26 |
| Batavia | Fair 20 |
| Beijing | Shower 20 |
| Bombay | Shower 20 |
| Buenos Aires | Shower 14 |
| Calcutta | Shower 12 |
| Cairo | Sun 25 |
| Cardiff | Shower 18 |
| Chengdu | Fair 21 |
| Chicago | Shower 10 |
| Cologne | Shower 14 |
| Dakar | Fair 26 |
| Dallas | Shower 25 |
| Dubai | Sun 40 |
| Dublin | Shower 12 |
| Durham | Sun 20 |
| Edinburgh | Rain 11 |
| Faro | Shower 20 |
| Frankfurt | Shower 15 |
| Geneva | Shower 13 |
| Glasgow | Sun 22 |
| Glasgow | Rain 11 |
| Hamburg | Shower 14 |
| Helsinki | Rain 8 |
| Hong Kong | Fair 26 |
| Honolulu | Fair 23 |
| Istanbul | Sun 18 |
| Jakarta | Fair 32 |
| Jersey | Fair 13 |
| Johnsburg | Fair 24 |
| Karachi | Sun 25 |
| Khartoum | Fair 30 |
| L. Angeles | Fair 20 |
| Las Palmas | Fair 23 |
| Lima | Fair 25 |
| Lisbon | Fair 20 |
| London | Shower 15 |
| Luxembourg | Shower 12 |
| Lyons | Shower 14 |
| Madrid | Fair 21 |
| Manila | Fair 25 |
| Maracaibo | Fair 21 |
| Melbourne | Fair 18 |
| Mexico City | Fair 27 |
| Miami | Fair 30 |
| Montreal | Fair 13 |
| Moscow | Fair 19 |
| Munich | Shower 14 |
| Nairobi | Fair 27 |
| Nagasaki | Fair 22 |
| Nassau | Sun 29 |
| New York | Fair 17 |
| Nice | Fair 18 |
| Nicosia | Sun 28 |
| Oaxaca | Shower 9 |
| Oslo | Shower 15 |
| Paris | Shower 12 |
| Perth | Shower 12 |
| Prague | Shower 14 |
| Rangoon | Fair 25 |
| Riyadh | Fair 21 |
| Rome | Sun 24 |
| S. Francisco | Fair 17 |
| Seoul | Fair 25 |
| Singapore | Shower 31 |
| Stockholm | Fair 10 |
| Strasbourg | Shower 16 |
| Sydney | Shower 18 |
| Taipei | Fair 23 |
| Taipei | Fair 22 |
| Tokyo | Fair 13 |
| Toronto | Fair 13 |
| Vancouver | Fair 14 |
| Verona | Shower 18 |
| Vienna | Rain 13 |
| Warsaw | Fair 13 |
| Washington | Fair 32 |
| Wellington | Fair 18 |
| Winnipeg | Sun 9 |
| Zurich | Shower 13 |



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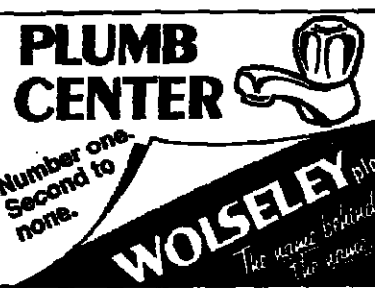
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مكتبة الامير



Telecoms merger nears completion

Bonn backs Deutsche Telekom link-up

By William Lewis in New York and Paul Bettis in Milan

Telecom Italia's board was last night poised to seal final approval of the terms of the company's proposed merger with Deutsche Telekom but was still struggling to iron out last-minute difficulties.

Earlier, the German government told Rome it supported the merger between Deutsche Telekom and Telecom Italia to form the group. In a letter to the Italian Treasury, the German finance ministry also said Germany would support the "parity principles" agreed by the two companies to ensure a union of equals. This had been a big concern of the Telecom Italia board.

If the deal is completed, it would create the world's largest

telecoms group and redraw the map of global alliances.

The deal has been dogged by doubts over whether the German and Italian governments could agree on a mutual shareholding structure.

The Italian Treasury last night said it was still holding talks with the German finance ministry to iron out some outstanding issues yet to be resolved. Although the Italian government only holds a 3.4 per cent stake in Telecom Italia, it also has a "golden share" giving it veto powers.

However, sources close to the deal said it envisaged a new holding company would be set up to make separate

offers to Telecom Italia and Deutsche Telekom shareholders. Deutsche Telekom shareholders should end up owning approximately 56 per cent of the new group, with Telecom Italia shareholders holding about 44 per cent. This is based on the closing price of both companies on Friday.

The German government letter was a reply to the Italian government's demands that Germany waive its voting rights on its 72 per cent stake in Deutsche Telekom and guarantee parity of representation in the corporate and management structure of the new combined group. Telecom Italia's board on Tuesday had con-

ditionally approved the merger plan insisting the deal could not go ahead without German commitment to freeze its voting rights on its stake as well as guarantee parity.

Although Germany made some concessions on the issue of parity, Bonn indicated it was not giving up its voting rights but pursuing its existing privatisation policy of non-involvement in Deutsche Telekom's operations.

However, the new company is believed to have joint chief executive officers along with a 20-member supervisory board. This will comprise five Telecom Italia nominees, five Deutsche Telekom nominees and 10

nominees by the group's employees and unions. The chairmanship of the supervisory board will rotate annually between Telecom Italia and Deutsche Telekom nominees.

Telecom Italia's ordinary shareholders will be bought out at a ratio of three to one, valuing Telecom Italia's ordinary shares at between €12.6 and €12.7 each based on Friday's close. Deutsche Telekom shareholders will be offered one for one.

Holders of Telecom Italia's savings shares will be bought out at a ratio 5.61 to one.

Goldman Sachs advised Deutsche Telekom. Credit Suisse First Boston and JP Morgan advised Telecom Italia.

Above the fray, Page 11
Lex, Page 12

AT&T and BT set for Japanese venture

By Alan Cane in London

AT&T of the US and British Telecommunications are expected to announce they are to take a 50 per cent stake in Japan Telecom, the country's second largest fixed network operator.

The deal would give the two Western operators a significant foothold in Japan's liberalising telecoms market at a time when competition and ownership of national assets is under intense scrutiny.

People close to the negotiations believe an agreement could be signed this week. BT would not comment last night.

BT and AT&T will each hold a 15 per cent stake in the Japanese company, a carrier which provides leased-line and long-distance services through fibre optic cabling running along railway lines owned by the company's major shareholders, which include the East Japan Railway Company and the Central Japan Railway. Their total investment is expected to come to some ¥180bn (\$1.5bn).

Observers say the three companies are planning an alliance in which BT and AT&T will combine their Japanese operations with the local company's units to offer internet and data communications. The alliance will plug a gap in the international strategy of both AT&T and BT, both comparatively weak in Asia-Pacific.

It would also suggest BT has abandoned hopes of an alliance with NTT, the largest Japanese operator which will shortly begin competitive operations abroad. BT and NTT are, however, co-operating in a telecoms venture called Starhub starting in Singapore next April.

AT&T is giving up leadership of the WorldPartners alliance, which included Japanese partners, to form a global alliance with BT. Japan Telecom will have access to a global network the two partners are creating to carry data traffic.

It is thought the deal will involve AT&T and BT taking stakes in the Japanese operator through shares offered in a private placement. East Japan Railway, which has 18 per cent, will remain the largest single shareholder. The expected deal comes against the background of Cable and Wireless' attempt to win control of another Japanese telecoms operator, IDC.



Things are going better: Coca-Cola chief Douglas Ivester. Picture: AP

Coca-Cola shows signs of recovering from slump

Group's earnings in line with expectations

By Betty Liu in Atlanta

Coca-Cola's sales performance in the first quarter was not as bleak as analysts predicted, reinforcing hopes that the soft drinks giant was set to recover from a slump over the past year.

It reported first quarter earnings largely in line with Wall Street expectations at 30 cents a share, slightly down from 35 cents in the same period in 1998.

The company reiterated that the slowdown in the world economy triggered by the Asian financial crisis cut into volumes and profits. But it also reported better than expected volume growth in key areas of Latin America and Asia.

Unit case sales volume in Brazil, for instance, slid 10 per cent - less than the 18 per cent decline some analysts were expecting.

Douglas Ivester, Coca-Cola chairman and chief architect

of the bottling system, expressed confidence that business conditions would improve in the second half of 1999.

Investors, who for much of last year complained about the falling stock price, responded. The company's stock inched up 1 1/2 in early Wall Street trading to 66 1/2.

"One can argue we're seeing a bottoming-out of performance in this business," said Skip Carpenter, beverage analyst at Donaldson, Lukin & Janette. "People are beginning to feel more comfortable with the negative impact from Latin America. More people are comfortable with the view that the business is seeing a growth trend again."

Analysts said the shock associated with higher prices in North America should wear off by the second half of the year, boosting volume growth in the company's core market. North American volume slid 1.5 per cent in the first quarter compared with a 6 per cent

rise in the same period in 1998. The outlook was also boosted by the prospect that investments in anchor bottlers all over the world should begin to pay off in the next year or two when volume rebounds and fattens up profit margins.

The Atlanta-based company has always argued that its long-term goals of investing in anchor bottlers and expanding globally would overcome short-term crises. Instead of pulling back, the company has continued to invest aggressively abroad, tailoring its products and marketing campaigns to each market. In the first quarter Coke introduced Sprite to India and Coca-Cola Light to South Africa.

"The decade of the 1990s was clearly [aimed] toward infrastructure investments, toward building the bottling system," Mr Carpenter said. "Going forward, you'll see much more leveraging of that system and you'll see fairly good investment activities."

German energy exchange to be launched

By Nikl Tall in Chicago and Edward Luce in London

Germany's Deutsche Börse and the New York Mercantile Exchange, the largest energy futures market in the world, are to launch Germany's first energy exchange.

The agreement casts doubt on the viability of recent talks between Nymex and the London-based International Petroleum Exchange, London's largest energy exchange. It aims to launch the new exchange by the end of the year.

Under the agreement, signed by the two organisations yesterday, Nymex would advise Frankfurt on which products to launch and on how to create an energy derivatives market. Deutsche Börse - whose futures arm is the all-electronic Eurex exchange - would provide the technology. "This will be an electronic

exchange," said an official at Deutsche Börse. "We will benefit enormously from having the largest exchange in the world as our advisers."

Officials say the exchange would initially offer futures contracts based on Germany's electricity market, which is being liberalised under a Brussels directive. There were no immediate plans for other contracts, such as oil futures and weather derivatives, said the official.

Although it would initially be based on the German market, the new exchange is likely later to offer international contracts, competing with other exchanges including IPE.

The two exchanges added that the exchange was likely to be operated eventually by the energy sector itself, and that no decision had yet been made on where it would be based. "This will not necessarily be a subsidiary of the Deutsche Börse," said the official.

Talk of a formal agreement between Deutsche Börse/Eurex and Nymex has circulated for some weeks. Nymex was invited last year to advise the government in Lower Saxony on the possible cash electricity market. But as discussions began to centre on making this an electronic exchange, Eurex also expressed an interest.

Last month, Daniel Rappaport, Nymex's chairman, disclosed that there had also been some preliminary discussion of a much broader alliance between Nymex and Eurex - possibly involving dissemination of each other's products and shared technology. Yesterday, Nymex said this idea remained a matter of active consideration, and, if anything, should benefit from the formal agreement on the energy exchange front. "We've taken a major positive step forward here," it commented.

Asked where the Deutsche Börse plan left its proposed alliance with the IPE, Nymex said: "To the extent that it moves forward, they would obviously be a part of the German plan."

Yesterday's announcement follows the collapse of negotiations between Eurex and the Chicago Board of Trade to set up a joint trading platform offering global derivatives products.

Merrill posts Y25bn loss for Japanese brokerage

By Gillian Triff in Tokyo

Merrill Lynch's retail brokerage in Japan has posted a loss of ¥25bn (\$212m) during the first nine months of its operations to March 31 - worse than the US group initially expected.

The results provide one of the first indications of the performance of Merrill Lynch's high-profile retail operations, established last summer after the US group bought some of the assets of Yamachi Securities, the Japanese broker that collapsed in 1997.

Merrill Lynch's venture is widely viewed as a crucial test case for both Western acquisitions in Japan and foreign penetration of the retail financial sector.

It is the first Western group to establish a full domestic retail brokerage operation and the first to acquire the assets of a failed Japanese broker. It has invested about \$200m - \$300m in the venture.

The US group blamed its

losses on the large investments it had made in infrastructure and personnel. "We expected losses. We always said that this would be a long-term project," Merrill Lynch said. It expects to record an overall loss of about ¥9bn on its Japanese operations, because the wholesale investment banking business recorded a profit.

Merrill Lynch initially expected to record losses of \$125m in the first year and \$30m in the second before moving into profit in 2000. It now expects to record profits in 2002.

Some analysts warned that the losses also highlighted the difficulties Merrill Lynch was facing building a franchise in the Japanese retail sector. Many suspect that the group is finding it more difficult than it expected to transplant US sales techniques into the Japanese market.

Bob Garzone, analyst at Dresdner Kleinwort Benson, said: "I think they are having a tough time. The Japanese

brokers are strong and, although Merrill Lynch is a good company, it is still a foreign company in the eyes of Japanese."

Merrill Lynch's task has also been complicated by last year's alliance between the US Traveler's group and Nikko Securities. This has boosted Nikko's ability to compete alongside the other two large brokers, Daiwa and Nomura.

A further blow is the government's plans to deregulate commissions fully later this year. This is expected to lead to price wars, squeezing revenues and favouring large, established retail brokers.

Merrill Lynch yesterday insisted it was expanding the business rapidly and had some 30 branches with 1,000 employees. Total accounts have risen to 40,000, with ¥500bn worth of assets under management.

However, this remains tiny compared to companies such as Nomura, which has ¥46,000bn worth of assets and 40m accounts.

HENRY BUTCHER
Industrial Consultants,
Auctioneers & Valuers
+ 44 171 405 8411

INSIDE

Donors give Russia soft ride

The Paris Club of official creditors may not push Russia into restructuring its post-Soviet dollar eurobonds. This contrasts with the strict demands donors made of Pakistan. Page 20

Hoya keeps shareholders in sight

Hoya, the Japanese optical glass manufacturer, has outperformed the Tokyo stock exchange by 350 per cent in the past five years. Despite recession, it announced record net profits for last year of ¥17.8bn (\$151m). Mamoru Yamanaoka, Hoya's president (left), says its success is built on transparency and respect for the rights of minority shareholders. Page 17

Anglo American gears up for London

The prospectus is expected today for Anglo American. The diversified mining group moving its listing from Johannesburg to London next month following the merger of Anglo American Corporation of South Africa and the Luxembourg-quoted Minorco. Page 18

Swiss watch Geberit offering

Swiss investors are hoping that they fare better from plans by Doughty Hanson, the UK leveraged buy-out company, to float Geberit, the Swiss sanitary systems manufacturer, than they did from the flotation of Tag Heuer, the luxury watch company, three years ago. Page 16

Key line for Papua New Guinea's gas

A 2,655km natural gas pipeline from Papua New Guinea to Queensland, Australia, looks set for construction at a cost of \$5.5bn after Exxon agreed to integrate its Hides gas field with Chevron's Kutubu field. Commodities, Page 22

Redchips ride Hong Kong rally

New World Infrastructure, the infrastructure investor in China, and Cosco Pacific, the Hong Kong-listed arm of the shipping and ports group, raised a total of \$252.7m, capitalising on the Hong Kong rally and renewed appetite for redchips. Page 20

Tribasa builds on firmer footings

Grupo Tribasa, Mexico's debt-ridden construction company, may be on sound foundations with its plans to repay or restructure its borrowings by the end of the year. It has so far cancelled half the \$550m of corporate debt it pledged to pay down in January. Page 14

Foreign exodus keeps Nairobi busy

Nairobi Stock Exchange recorded its highest monthly turnover of Ks775m (\$11.8m) in March as foreign investors pulled out. Strong trading may also reflect a move by Kenyans from debt into equity. Emerging market focus, Page 32

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(This announcement appears as a matter of record only)

Innisfree PFI Fund II

£150 million
Private Equity Fund
for
Public Private Partnerships

Fund Manager
Innisfree Limited

Funds provided by clients of
Hermes Investment Management Limited
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and by
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Prudential Assurance Company Limited
John Hancock Mutual Life Insurance Company
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Regulated by INMRO
March 1999

Strength in Derivatives

Deutsche Bank

COMPANIES & FINANCE: THE AMERICAS

OIL DESPITE WORST RESULTS SINCE 1994 WALL STREET ANALYSTS ARE OPTIMISTIC ABOUT THE US'S BIGGEST ENERGY GROUP

Exxon earnings fall 44% on low prices

By Richard Waters in New York

Last year's slide in oil prices hit Exxon's first-quarter earnings hard, leaving the biggest US energy group with a 44 per cent decline in net income.

However, with oil prices rebounding sharply, reaching more than \$18 a barrel earlier this week, the period is likely to signal the low point in Exxon's earnings, according to Wall Street analysts. Despite further weakness in its share price yesterday morning, the shares remained nearly 15 per cent higher than at the start of the month.

The \$1.02bn in after-tax profits recorded in the period, equivalent to 42 cents a share, down from \$1.82bn a year before, made this the company's weakest quarter since early 1994.

With oil prices at a 20-year low, though, the fact that Exxon's earnings topped \$1bn was taken as a sign of its resilience after cost-cutting during the 1990s. Exxon has now reported year-on-year earnings declines in each of the past five quarters, reflecting the slide in oil prices and the surplus capacity in the energy industry caused by the Asian economic crisis.

The current quarter could finally mark a reversal, with most analysts expecting the company to top the 60 cents a share in earnings it recorded in the same period last year.

In the first quarter, lower oil and natural gas prices and a 4 per cent cut in its liquids production contributed to a 10 per cent decline in the group's revenues from a year before, to \$26.9bn.

The average price of oil during the quarter was \$2.75 a barrel lower than the same period of 1998, a 20 per cent decline, said Lee Raymond, chairman.

Exxon's downstream operations suffered a bigger slide in earnings than its exploration and production activities, as profit margins in the refining and market-

ing business were squeezed by falling demand in Asia. After a \$120m charge for restructuring in Japan, non-US downstream earnings fell to \$154m, down from \$496m.

In the US, downstream operations registered a \$23m loss, compared with a \$100m profit a year ago.

Exploration and production earnings, meanwhile, fell by roughly 40 per cent around the world.

The US contributed \$136m in earnings, while non-US activities made \$425m. Exxon's chemical operations registered an 18 per cent earnings decline due to worldwide overcapacity in the industry and the economic slowdown in Asia, Mr Raymond said.

Leaving aside the restructuring charge in Japan and a one-off charge recorded the year before, Exxon's net income would have fallen by 40 per cent to \$1.14bn, or 47 cents a share, narrowly ahead of Wall Street expectations.

Compaq blames its woes on market

By Louise Kehoe in San Francisco

Compaq Computer insisted yesterday that a worldwide deceleration in the growth of the business sector of the personal computer market was one of the primary causes of a sharp decline in its first-quarter earnings, even as other industry leaders questioned its stance.

The PC market was fundamentally healthy, said Greg Maffei, Microsoft chief financial officer, late on Tuesday, when the software company reported a 40 per cent increase in earnings. "Lower profits for certain manufacturers do not translate into the death of the PC," he added.

Compaq, as predicted in a profit warning issued earlier this month, yesterday reported net income of \$281m, or 16 cents a share,

far below earlier Wall Street expectations. Net income last time was \$16m, or 1 cent, after charges.

Revenues surged 66 per cent to \$9.42bn. The latest quarter included revenue from Digital Equipment, which Compaq acquired for \$9bn last year.

The results were "disappointing and unacceptable", said Ben Rosen, Compaq chairman, who took on the role of interim chief executive following the ousting of former chief executive, Eckhard Pfeiffer, last weekend.

Mr Rosen said he and the other two members of the hastily formed "office of the chief executive" were already meeting with Compaq managers, customers, business partners and suppliers.

"We are taking a fresh look at all of the company's operations," said Mr Rosen,

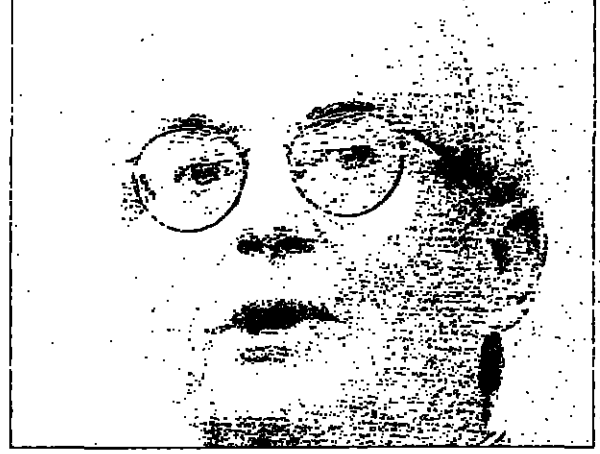
"and will take any actions necessary to restore our traditional levels of profitable growth."

Revenues did not live up to internal expectations, Compaq said, citing slower than anticipated demand for business PCs and intense price competition.

In a sign that the combination of Compaq's operations with those of Digital had not gone as well as expected, Compaq acknowledged that it had failed to sell enough high-end computer systems, such as those made by Digital, to meet its financial targets.

However, revenues from computer services - also previously part of Digital - were \$1.6bn and had met company expectations for the quarter. Compaq anticipated "accelerated and profitable growth" in this sector.

Today, Compaq will hold



Ben Rosen: results were 'disappointing and unacceptable' AF

its annual shareholders meeting at its headquarters in Houston, Texas.

Proxy documents filed with the Securities and Exchange Commission indicate that Mr Pfeiffer may

receive at least \$6m in severance pay as well as close to \$7m worth of stock options as a result of his forced resignation. In addition, he holds stock options worth an estimated \$340m.

Investors agree to bail out Sidor

By Raymond Colitt in Caracas and Henry Tricks in Mexico City

Shareholders of the Latin American Amazonia consortium have agreed to bail out their troubled steel company Sidor, one of the region's largest, but are waiting for a commitment from the cash-strapped Venezuelan government, which holds a 30 per cent stake in the venture.

Carlos Pappier, Sidor's administrative director, said the principal shareholders of Amazonia, Mexico's Hylsamex (30 per cent) and Tamsa (17.5), Argentina's Siderar (17.5) and Techint (5), have agreed in principle to capitalise Sidor by \$140m. The company fell into technical default on \$40m of debts last month.

Mr Pappier said \$200m was needed to meet Sidor's debt and investment requirements in 1999 and 2000.

Sivensa, the Venezuelan steel company, was unable to inject additional cash and its 20 per cent stake in Sidor would be diluted, Mr Pappier said. Sivensa would be given the option to buy back its share over two years.

The Venezuelan government, which faces its worst budget crisis in history, is studying ways to raise its contribution of \$60m. Earlier this month, President Hugo Chavez pledged his support, saying Sidor "could not be allowed to fail".

Yet it is unclear if the government will be able to raise the funds. By law it is bound to sell a 20 per cent stake to Sidor employees and float its remaining 10 per cent on the stock exchange.

Last week Grupo Alfa, one of Mexico's leading conglomerates and the holding company of Hylsamex, sold two assets that would help raise funds for the rescue effort, a company official said.

"In the negotiations with Sidor's creditors, if we are required to raise capital, we have the funds," said Enrique Flores, head of investor relations at Alfa. Because Hylsamex is blocked by its debt covenants from bailing out Sidor, Alfa has come to the rescue and will probably take a stake in Amazonia, analysts say.

A final decision is expected at a Sidor shareholders' meeting on April 29.

Mr Pappier said the company had accelerated its cost-cutting measures and already had met its 2002 efficiency targets.

Record low steel prices, a dramatic slump in domestic demand, as well as an overvalued currency, have all led to a collapse of Sidor's domestic sales by as much as 60 per cent, triggering negative operational results since September of last year. Some analysts estimate Sidor's losses this year to exceed \$200m. Mr Pappier expects total sales of \$800m this year.

If the rescue scheme goes ahead, Sidor's \$800m investment plan and its target to double production to 6m tonnes a year would be delayed by two years until 2004, Mr Pappier said.

Goodyear profits hit by revamp charges

By Nikki Tait in Chicago

Heavy restructuring charges caused Goodyear Tire & Rubber to report a sharp fall in first-quarter profits to \$28.5m after tax compared with \$176.8m a year earlier.

The US tyre manufacturer now expects its rationalisation programme to cut about 4,200 jobs and yield annual savings of about \$150m.

Shares in Goodyear fell \$4½ to \$52½ in morning trading.

Goodyear also said it had been cutting production during the first three months of 1999 as it tried to bring inventories back into line and "continued to confront weak market conditions in emerging markets around the world".

That trend was likely to have a further impact in the current quarter, warned Samir Gubara, chairman. But he added that Goodyear would start to see some benefit from the rationalisation and some signs of recovery in selective overseas markets.

First-quarter sales were down from \$3.1bn to \$2.8bn, but this was largely due to an estimated \$100m hit as the US dollar strengthened, suggesting that the underlying situation was flat.

Tyre unit sales were 2.3 per cent lower, although this was attributed to the company's decision to target a "more profitable sales mix".

Meanwhile, the rationalisation charges totalled \$167.4m, or 74 cents a share, meaning that the underlying fall in Goodyear's profits was more modest - at \$141.5m or 60 cents a share, against \$173.6m or \$1.09 cents.

Goodyear has announced redundancies and reorganisation moves at different facilities in recent months, sometimes sparking employee protests.

US airlines post sharp declines

By Andrew Edgecliffe-Johnson in New York

American Airlines and US Airways both reported sharp profit falls for the first quarter, but managed narrowly to beat Wall Street expectations.

AMR, the parent company of American, had already warned the market that a 10-day "sick-out" by pilots in February would deal a \$200m-\$350m blow to earnings this year.

Yesterday the second largest airline in the US confirmed that earnings were cut by 81 per cent from \$29m, or \$1.62 a share, to \$5m, or 34 cents. The load factor, a measure of seat

occupancy, slipped 0.2 points to 67.1 per cent.

The figures confirmed comments by rivals, including UAL, that they had taken business from American since the pilots' action.

Donald Carty, AMR chairman and chief executive, added that the airline had decided to accelerate the retirement of its older aircraft, in order to keep American's capacity in line with the slower growth that it now expects from international markets.

"American is positioned for average annual growth of approximately 3 to 3.5 per cent through 2003," he said.

AMR, which is the majority owner of the Sabre elec-

tronic bookings group, gave no details of whether Sabre would seek an initial public offering for its Travelocity on-line bookings business.

In the wake of the successful initial public offering of Priceline.com, Kevin Murphy, airline analyst at Morgan Stanley Dean Witter, said: "Market forces suggest they should spin it off."

US Airways, the sixth largest carrier in the US, reported a 63 per cent drop in net income to \$46m, or 56 cents a share.

Rakesh Gangwal, chief executive, blamed poor weather at the start of the year and disruption caused by transferring its computer system to

one supplied by Sabre.

He added, however, that operations had been "much closer to normal" by the end of March, and that the number of cancellations fell during the period. US Airways' passenger load factor fell from 69 per cent to 67.7 per cent.

Trans World Airlines again reported an operating loss for the quarter, but narrowed this from \$68.7m to \$37.5m thanks to record passenger boardings and load factors.

The loss per share fell from \$1.06 to 42 cents.

Shares in AMR rose \$1½ to \$69½ by midday, and UAL was \$1½ higher at \$91½. TWA advanced \$½ to \$5½.

CSFB to reduce real estate risk

By Tracy Corrigan in New York

Credit Suisse First Boston plans to reduce its real estate portfolio, believed to total \$80n-\$90n, by about 50 per cent and to restructure its real estate lending and securitisation business.

The move is the result of a company-wide decision to reduce risk across the board, said Stewart Dauman, managing director of CSFB, who will co-head the new group with Karen Zimmerman.

Andy Stone, the real estate financier who ran the unit, formerly known as the Principal Transactions group, will be chairman of the newly named Real Estate Products group, now part of the larger fixed income and derivatives division.

He set up the unit three years ago, after joining CSFB from Daiwa Securities, where he headed the mortgage, asset-backed and real estate securities group.

Mr Stone will supervise the liquidation of the portfolio, which is expected to take more than a year, and work with the new group in an advisory capacity.

There was widespread speculation last year that Mr Stone would leave, after his group was rumoured to have suffered heavy losses during

the market turmoil, and to have been left with at least \$500m of loans on its book which it was unable to securitise.

CSFB said the unit made money overall in 1998, and in fact had its second best year ever.

The unit's performance is not separately disclosed in CSFB's earnings statement.

The new unit's mission is to "broaden the firm's activities in commercial mortgage securitisation, real estate investment banking and client advisory services while maintaining an active but reduced proprietary positioning capability", CSFB said.

"With this reorganisation, CSFB will incorporate in a single group a dedicated investment banking real estate practice with its current fixed income and derivatives division real estate business," said Marc Hotimsky, managing director and co-head of CSFB's fixed income and derivatives division.

Last year, the unit originated more than \$11bn of real estate loans, according to Mr Dauman. The volume of loans may remain as high in the future, but the loans will be more actively traded.

Cemex, Modelo ahead sharply

By Henry Tricks in Mexico City

Unlike their South American counterparts, some of the titans of Mexican industry have shrugged off a sluggish first-quarter to report strong earnings growth this week, further buoyed by the peso and resilience in US markets.

Both Cemex, the world's third largest cement producer, and Modelo, maker of the heavily exported Corona Extra beer, reported net profits more than 50 per cent higher than the first quarter of 1998.

That was largely because of non-cash gains as the peso revalued more than 4 per cent during the period, cutting dollar-financing costs. In Mexico, financial analysts tend to shrug off non-cash items because of the volatility of financial markets.

Of more weight were the two companies' robust operating performances, which reflected the strength of foreign markets and an unexpected resilience in the Mexican market, despite economic data showing that domestic demand hovered in recession in the first quarter.

"Operationally, we're seeing 5 per cent gains in the market as a whole. It's not great, but in the Latin Amer-

ican context of declining earnings, it is positive," said Lars Schonander of Santander Investment.

Cemex, which has plants in North and South America, Spain and Asia and plans to list on the New York Stock Exchange shortly, said quarterly revenues were 13 per cent ahead at \$1.12bn, driven by higher margins especially in Mexico, the US and Spain.

In Mexico, cement volume growth was a healthy 7 per cent, though executives expected it to run at a more modest 2 per cent annual rate. In the US, volumes were up 41 per cent, and they were confident demand would remain strong, partly because of a vast federal road-building programme.

Analysts also praised Modelo's "spectacular" results, with operating profits up 44 per cent year on year at 1,270 pesos (\$135m), on sales of 5,190n pesos. Exports surged 42.7 per cent, and in the Mexican market, its volumes also picked up 7.3 per cent.

However, these healthy domestic performances were not expected to be reproduced by Mexican retailers. In January and February, retail sales growth was just 0.3 per cent, while wholesale sales fell 3 per cent.

Tribasa aims for recovery in debt restructure

By Andrea Mandel-Campbell in Mexico City

Grupo Tribasa, Mexico's debt-ridden construction company, may be on the road to recovery with its plans to repay or restructure the bulk of the burden by the end of the year.

The country's second largest builder has so far cancelled nearly half the \$550m of corporate debt it pledged to pay down under a restructuring plan announced in December,

said Manuel Delgado, vice-president of finance for Tribasa. All but \$25m of the remaining amount is being negotiated with more than 15 creditors through the sale of non-core assets and the public listing of projects in Chile and Mexico.

Including project financing, the debt reached \$1.3bn last year. Mr Delgado estimates that by the end of 1999 Tribasa's corporate debt will be reduced to \$270m, a figure that analysts say is more in keeping with a company of

its size. Clinging Tribasa's financial comeback is the renegotiation of a \$100m syndicated loan headed by Deutsche Bank and BankAmerica which came due in December. Market sources say that earlier this month Deutsche Bank agreed to a draft restructuring of the loan that would include a \$60m standby loan from Bancomex, Mexico's foreign trade bank.

Bancomex officials said a decision on whether to grant the loan guarantee would be made in the coming days. In the meantime, market analysts have begun recommending Tribasa's battered stock, which has plummeted from 40 pesos last August to just over 7 pesos.

Tribasa, alongside the rest of the Mexican construction sector, is still recovering from the 1995 peso devaluation.

Despite attempting its second restructuring since then and defaulting on a \$26m debt just last month, Tribasa last week convinced a hand-

ful of Mexico's leading financial groups to inject \$80m of new capital, part of a \$180m rights issue.

The price was judged right at 7 pesos a share but the bankers are also betting on Tribasa's impressive backlog of projects. These will grow as part of a new strategic alliance with Enron, the US energy giant.

Enron, in addition to taking a likely \$50m equity stake in Tribasa and providing future project capital, is said to be offering work on

projects throughout Latin America worth some \$400m. In return, Enron gains entry to nine Tribasa projects, including contracts to upgrade two petroleum refineries owned by Mexico's state-owned oil company, Pemex.

More cautious market analysts say Tribasa still faces the challenge of generating a minimum surplus cash flow of \$40m a year to make interest payments on its debt, sustain operations and create value for shareholders.

NEWS DIGEST

AUTOMOTIVE SUPPLIES

Tenneco chief resigns before possible shake-up

Tom Evans, head of Tenneco's automotive business, yesterday announced he was leaving the company "to pursue another opportunity". His departure comes just days before analysts expect Tenneco, an erstwhile industrial conglomerate, to outline its future structure, and possibly split its remaining automotive parts and packaging businesses into separate free-standing companies.

Mr Evans' departure is said to have been fairly amicable, and he is believed to be joining another expanding automotive supplier. He will be replaced as president of Tenneco's automotive parts division, which has annual sales of around \$3.2bn, by Mark Frisora, who had previously been senior vice-president and general manager of Tenneco's North American original equipment business. Nikki Tait, Chicago

TOOTHPASTE

Colgate-Palmolive smiling

New product introductions and buoyant US demand enabled Colgate-Palmolive to shrug off the worst of the economic difficulties in emerging markets and lift first-quarter earnings by 8 per cent. The toothpaste and soap group reported earnings of 70 cents per share or \$209m, up from 65 cents or \$196m.

Colgate North America, which accounts for a quarter of group turnover, achieved a 13 per cent increase in sales thanks to the successful launch of Colgate Total Fresh Stripe toothpaste and strong sales of deodorant and dishwashing liquid.

In Latin America, accounting for a quarter of revenues, weak local currencies contributed to an 8 per cent fall in sales. Cost-cutting in Europe similarly buffered the division from the worst of the Russian crisis, and "substantial" volume growth from China ensured that the Asian region improved sales by 1.5 per cent.

Another global consumer goods group, Kimberly-Clark, demonstrated similar resilience, with a 47 per cent improvement in first-quarter earnings to 75 cents per share or \$403m.

The profit advance was assisted by a 3 cent one-off credit, as the group spent less on restructuring than it had previously estimated. Underlying earnings were up 28.6 per cent, driven by a 45 per cent jump in profits from the personal care division, which introduced new Huggies disposable diapers and other sanitary products during the period. Andrew Edgecliffe-Johnson, New York

RETAILING

Casa Anglo prepares to sell

Casa Anglo, the troubled São Paulo retailer, has appointed José Paulo Ferraz do Amaral as its new chief executive with full powers to prepare the group for sale. Mr Amaral, who previously restructured one of the group's companies prior to its sale to Casa Anglo, said his first step would be to order an audit to establish the precise size of the company's debts. This would enable him to negotiate repayment of the estimated R\$800m (US\$468m) debt to banks and suppliers as well as complete a R\$200m loan previously requested from the government's BNDES development bank.

Casa Anglo owns Mappin, a distant cousin of the London-based jeweller Mappin & Webb and a long-established department store chain that has suffered from chronic financial troubles. It was bought in 1995 by Ricardo Mansur, a São Paulo investor, who later acquired Mesbla, a bankrupt Rio de Janeiro department store chain which Mr Amaral had turned round. Mr Mansur remains as main shareholder of the two groups, which have 53 outlets, but has handed full executive powers to Mr Amaral. John Barham, São Paulo

PHARMACEUTICALS

Bristol-Myers 14% ahead

Bristol-Myers Squibb, the US-based pharmaceuticals company, yesterday reported record first-quarter net earnings of \$1.47bn, up 14 per cent, on sales of \$4.9bn. Earnings per share of \$0.53 was 1 cent above analysts' estimates, according to First Call. Its share price - devalued by the recent sell-off in the pharmaceuticals sector as investors shifted into cyclical stocks - gained more than 5 per cent to \$62½ at around midday.

Total worldwide sales were 9 per cent higher while pharmaceutical sales rose 15 per cent. US pharmaceutical sales rose 21 per cent. Sales of Glucophage, its oral diabetes drug, rose 55 per cent to \$282m and sales of its cancer treatment Taxol rose 31 per cent to \$329m. Tracy Corrigan, New York

BOOKSELLING

New Borders chief quits

Philip Pfeiffer has resigned from Borders Group, the book-sellers, less than six months after he was appointed chief executive. Sources close to the company said: "He just really wasn't a good fit, and both sides wanted to move on."

The company said it would take a 4 cents per share, or \$3m, charge in its first-quarter results because of Mr Pfeiffer's departure. It is thought that the sum reflects his compensation package.

Borders has struggled against competition from online book retailers such as Amazon.com, and traditional rivals including Barnes & Noble. Its shares, which have fallen from almost \$40 since June 1998, slipped another \$2½ to \$14½ by yesterday lunchtime.

Robert DiRomualdo, Borders' chairman and former chief executive, will take over Mr Pfeiffer's role until a successor is chosen. In a statement, Mr Pfeiffer said: "Borders is made up of a fine group of colleagues and I'm confident the company can effectively compete in its marketplace."

Borders said first quarter earnings before the charge were expected to be 4-5 cents for the retail stores and a 5-6 cent loss for the online Borders.com division. Andrew Edgecliffe-Johnson

MINING

Pacalta agrees to takeover bid

The board of Pacalta Resources, the Canadian mining group known for its production in Ecuador's Oriente Basin, has agreed to a sweetened C\$963m (US\$647m) takeover bid by Alberta Energy, one of Canada's largest oil producers. The offer includes C\$27.4m of Pacalta debt. Pacalta's board had rejected AEC's initial C\$748m offer and began searching for a white knight. Pacalta said it had accepted AEC's revised offer following an extremely competitive bidding process.

Pacalta management and directors, holding about 17 per cent of the company, have agreed to tender their shares and are recommending that shareholders also tender. The acquisition, subject to the usual conditions, would bolster AEC's presence outside western Canada and position it to exploit the investment upside should oil prices continue to rebound. Scott Morrison, Toronto

كلمات الجمل

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You have a feeling this may take more than the usual M&A capabilities.

Your business is global. Your headquarters is Europe. You're in the midst of transforming your company — and you're stuck. Your prospective merger partner has run into financial and regulatory difficulty. Capital markets have become volatile. Your industry is going into a downturn. And, while it's been successful so far, some investors now question your strategy. Still, you believe you can make it work. Because you're working with a firm that brings you global capabilities and contacts, credibility in all marketplaces and the

strength that comes with being the leading M&A firm in Europe for four years running.*

Right now they're moving on all fronts: Re-evaluating options. Researching alternative merger candidates. Making sure investors understand your situation and appreciate your potential. And keeping you on course in an M&A market that ebbs and flows.

So, while the job is daunting, you're confident it will get done — and done right — by a firm that's known for one powerful belief. Anything is possible.

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COMPANIES & FINANCE: EUROPE

ELECTRICAL ENGINEERING SWISS-SWEDISH GROUP REPORTS 17% RISE IN FIRST-QUARTER NET INCOME

ABB detects recovery in south-east Asia

By Peter Marsh in London

ABB, one of the world's biggest electrical engineering groups, said yesterday that south-east Asia had embarked on a "solid but slow recovery", as the group announced a 17 per cent rise in first-quarter net income.

Goran Lindahl, chief executive of the Swiss-Swedish company, said some of the worst-hit countries in the region, including Thailand, South Korea and Malaysia,

were seeing a return to growth, even though economic conditions in Japan remained difficult.

Mr Lindahl added that he thought Japan's problems would not hold back an economic upturn in nearby countries. "We see a disconnection between Japan and the rest of the region," he said.

ABB, which makes products including turbine generators and automation systems, is seen as a bellwether of worldwide economic trends. After investing heavily in its south-east Asian activities in recent years, it has been among the industrial companies hit worst by the region's economic crisis, which erupted in late 1997.

In the three months to March 31, ABB's net income was \$302m, against \$256m in the same period last year. Revenues rose 11 per cent to \$6.89bn, compared with the previous \$6.2bn, while orders expanded 4 per cent to

\$8.82bn. Last month ABB and Alstom, a rival Franco-UK engineering group, announced a merger of their power equipment divisions, in a deal which would create one of the biggest three makers of such equipment.

The agreement is awaiting clearance by European Union competition authorities, which are expected to announce a decision by July. Mr Lindahl said he was confident that the group's net income for 1999 would

exceed last year's figure of \$1.2bn. He said the company's operations in Europe would benefit from the recent reduction in interest rates by the European Central Bank, helped by relatively strong growth in southern Europe.

In North America, Mr Lindahl said he expected the long period of economic expansion to continue for the foreseeable future. "I am cautiously optimistic about the rest of the year," he said.

In the first quarter, orders from Asia climbed 70 per cent to \$1.65bn from the previous \$970m, with orders from Europe little changed at \$4.11bn, against \$4.08bn, while those from the Americas climbed 32 per cent to \$4.11bn from \$3.08bn.

However, orders from the Middle East and Africa fell sharply to \$597m from \$1.52bn.

Most of ABB's divisions saw an increase in operating earnings.

NEWS DIGEST

LIFE SCIENCE

Competition blamed for Novartis shares fall

Shares in Novartis fell sharply yesterday after a steep decline in the Swiss life science company's agribusiness sent first-quarter group turnover down 1 per cent. Daniel Vasella, chairman and chief executive, blamed stiffened competition and tough conditions in US and European farming for a 10 per cent drop in sales to SF2.4bn (\$1.6bn).

The company said it did not see an improvement on the agribusiness side, which makes up about a third of turnover, for at least a year. The core pharmaceuticals business fared marginally better, rising 4 per cent to SF4.3bn, though this is below the industry norm. Analysts blamed the company's relative underperformance on the booming US market. "Pharmaceutical sales growth is pedestrian," said Mark Tracey, analyst at Goldman Sachs. Sales of Voltaren, an anti-rheumatic and Novartis's second biggest selling drug, dropped 11 per cent as competition from generics and a new class of drugs kicked in. David Pilling, Pharmaceuticals Correspondent

FIBRES

Acordis demerger faces delay

The planned demerger of Acordis, the fibres producer created by Akzo Nobel after its takeover of Courtaulds of the UK, may be delayed until next year. The Dutch chemicals group said yesterday that while legal and other preparations for a spin-off were on schedule, a sharp downturn in the sector meant it might be better to wait. A further 1,200 jobs, mainly in Germany and the Netherlands, are being cut at Acordis, which together with redundancies already in train will reduce staff by 10 per cent. This is in response to what Akzo said yesterday was a "cyclical downturn of the textile businesses aggravated by a dramatic increase of exports by Asian producers".

Acordis, with sales of £2.3bn, is intended to be the world's largest dedicated manufacturer of fibres. It did not cover its cost of funds in the three months to March, generating operating income of just £4m compared with £17m a year earlier. The setback was in part responsible for a 7 per cent decline unveiled yesterday by Akzo in quarterly net profits, which stood at £173m. Fritz Frölich, Akzo's chief financial officer, said the group would take a write-off of "several hundred million euros" later this year to cover the restructuring. Shares in Akzo rose £2 in Amsterdam to €43.10, however, as results from its paint and chemicals operations emerged better than expected. Gordon Cramb, Amsterdam

BANKING

ABN Amro launches service

ABN Amro has secured its first customers for a global transaction service aimed at other banks and multinationals, after building a payments network which the Dutch group said yesterday had cost it some €1.1bn (\$500m). Presenting its annual report, Jan Kalff, chairman, said Alcatel of France was among the initial clients for a service he described as a "clear winner" in attracting business. He said the bank aimed to be among a few in the world able to take on cash management, from domestic collections to letters of credit, for multinationals wherever they operate. The €1.1bn investment on staff and information technology was made over three years. It is also designed to support the multiplicity of correspondent banking relationships operated by regional financial institutions. Gordon Cramb, Observer, Page 11

SPAIN

Banco Popular ahead

Banco Popular, Spain's highly capitalised fourth-ranked bank, yesterday reported first quarter results that were well ahead of forecasts and claimed it had regained its earnings momentum with improved margins across the board. A net lender on the interbank market, Popular had been under considerable pressure to broaden its business activity in order to offset the impact of lowered interest rates. The bank raised its net interest income by 3.1 per cent year-on-year to €249.5m (\$271.1m), its operating income by 13.4 per cent to €196.6m and its net attributable profit by 4.2 per cent to €110m. Tom Burns, Madrid

TAKEOVER

Deutsche official to step down

Deutsche Bank said yesterday that Jürgen Krumnow, the management board member responsible for financing the \$9bn takeover of Bankers Trust of the US, would step down from his post at the end of this year. The timing of the announcement surprised financial analysts. There have been rumours for some months of disagreements between Mr Krumnow and other senior Deutsche officials over the Bankers Trust deal. Tony Barber, Frankfurt

Airtel turns round loss and eyes expansion

By Tom Burns in Madrid

Airtel, Spain's second biggest mobile carrier, yesterday appeared to issue a challenge to Telefonica, the dominant domestic carrier, when it announced net profits after its third full year of business and pledged to invest in fixed-line and internet communications.

Asked if he was ready to initiate the bidding war in the Italian telecoms market by launching a takeover bid for Telefonica, Juan Abelló, Airtel's chairman, quipped: "For the moment the numbers don't add up but I am ready to think about it".

The mobile carrier, which is backed by British Telecommunications and AirTouch of the US, turned round losses of Pta13.9bn (€83.5m, \$98m) in 1997 to a net income of Pta2.7bn last year. It added 1m clients to total 2.5m, which is 30.6 per cent of the domestic mobile market. Mr Abelló forecast net profits of Pta2.5bn and a market quota of 33 per cent with 3.5m clients at year's end.

The carrier is going to step up its competition with Telefonica as a global carrier this year by launching a fixed-line long distance and international network. It will also build its internet unit and develop optic fibre data transmission and multimedia services.

It is not clear what role British Telecom, which owns

17.8 per cent of Airtel, will play in the carrier's expansion.

The UK group plans to begin fixed-line services in Spain independently at the end of this month and Mr Abelló said there was in principle no mandate for BT and Airtel to co-operate in these services.

BT acquired an additional 16.2 per cent of Airtel last week from Endesa and Unión Fenosa, the power groups, for €382.5m but it is due to allocate this equity among the operator's other controlling shareholders. In addition to AirTouch, these include a group of institutional domestic investors headed by Mr Abelló.

BT is expected to end up owning 22.9 per cent of Airtel, making it the carrier's largest shareholder after AirTouch which already holds a 21.7 per cent stake. Airtel is expected to play a pivotal role in any realignment of domestic telecoms. Telecom Italia, which is seeking to fend off a hostile bid from Olivetti by merging with Deutsche Telekom, is already in the Spanish market as a principle shareholder of Retevisión, a second fixed-line operator that began competing with Telefonica two years ago.

"Mega mergers are on the agenda and BT and France Telecom are on the loose," said Mr Abelló. "So is Telefonica."

Gucci guru shuns LVMH talks

By Alice Rawsthorn

Tom Ford, creative director of Gucci, the Italian fashion house, has cancelled a meeting at which Bernard Arnault, chairman of LVMH, the French luxury goods group bidding \$8.7bn for Gucci, had hoped to persuade him to stay at the company.

The cancellation of the meeting, which was due to take place in London today, is a blow for Mr Arnault at a delicate time in the acrimonious Gucci battle. This morning, a Dutch court starts the final hearing of two legal cases brought by LVMH against Gucci's management. Its verdict will be pivotal in determining the outcome of the conflict.

Mr Ford, 37, has played a critical part in Gucci's recent creative and commercial revival.

Domenico De Sole, Gucci president, has publicly



Withdrawal: Tom Ford turned down LVMH's invitation

Reuters

vowed to leave Gucci rather than work for LVMH.

Mr Ford, who would be entitled to a "golden parachute" of \$20m for leaving upon change of control and could yield an \$80m profit on his share options, has not commented on his plans.

In early spring, Pierre

Gode, a senior LVMH adviser, wrote to Mr Ford asking him to dinner at Mr Arnault's house in Paris, but the Gucci designer did not reply. Last week, Mr Gode sent a second letter of invitation, and LVMH was delighted when, earlier this week, Mr Ford accepted.

Surprise result lifts SAP 15%

By Tony Barber in Frankfurt

SAP, a stock market star for most of the 1990s, suffered a 15 per cent fall in pre-tax profit in the fourth quarter of last year, partly because companies began to reduce spending on new computer systems to concentrate on year 2000 problems.

However - using US accounting standards for the first time - SAP said sales in the first three months of this year had risen by 22 per cent to €1.08bn (\$1.15bn). Pre-tax profits slipped by 1 per cent to €172m.

Henning Kagermann, SAP's chairman, said the results reflected both the

accounting change and a surge in new orders in the last week of the reporting period.

Under the German accounting principles used before, sales would have risen by 20 per cent and pre-tax profit would have fallen by 19 per cent.

The company's strongest growth in the first quarter was in Europe, the Middle East and Africa, where sales rose by 36 per cent to €339m. Turnover in the Americas was up 14 per cent at €448m.

Sales in the Asia-Pacific region, which became an

increasing source of concern last year, were flat in the first quarter at €99m.

Mr Kagermann said the results, released early because they were expected to affect the market, showed the benefits of "stricter control costs and trouble-free integration of new staff".

Analysts said the dissolution of employee bonus scheme provisions had also propped up profits.

SAP was hit by the recession in Japan, which accounts for 8 per cent of its sales, as well as by economic problems in other Asian countries and Russia.

Threat to TV group CME fades in sacking dispute

By Robert Anderson in Prague

Central European Media Enterprises, the Nasdaq-listed television group, and Vladimir Zelensky, the licence holder of its dominant Czech operation Nova TV, yesterday appeared to be backing away from a confrontation that could have stopped CME broadcasting in its most profitable market.

On Monday CME, which runs eight TV stations in eastern Europe, sacked Mr Zelensky as general director of Nova TV's operating company CNTS for allegedly exceeding his authority and acting against Nova's interests.

Mr Zelensky subsequently threatened to withdraw permission to use the licence from CNTS, in which CME

holds 99 per cent, and begin broadcasting on his own.

Mr Zelensky said yesterday he was bitter over being ejected from his office but as long as he was able to carry out his obligations as a licence-holder - by being given proper access to Nova - he would not carry out his threat.

"We will carefully watch the quality of services provided," he said. "If they [CNTS] will properly fulfil our orders we have no reason to change."

Relations between CME and Mr Zelensky broke down over its attempt to win more control of Nova by merging CNTS and the licence company CET 21, in which Mr Zelensky holds 60 per cent.

For CME the issue had become pressing, ahead of its \$615m takeover by SBS Broadcasting, the Nasdaq-listed radio and television group, that was announced last month.

Fred Klinkhammer, president of CME, said talks had become stuck over Mr Zelensky's refusal to accept constraints.

He said that after a merger Mr Zelensky "would no longer be able to act independently from his partners."

Mr Klinkhammer said the need for constraints was shown by the way Mr Zelensky gave exclusive rights to buy Nova programmes to another company of unknown ownership without consulting his partners, the reason given for his dismissal from CNTS.

Trelleborg may sell assets to focus on engineering

By Tim Burt in Stockholm

Trelleborg, the Swedish engineering and distribution group, is considering a wide-ranging restructuring that could involve the withdrawal from some distribution activities and the disposal of non-core assets.

The company's board will today assess a number of strategic options, which could include spinning off the distribution operations to shareholders, in a bid to concentrate on core industrial business such as automotive components, wheels and polymers.

As part of the restructuring, Trelleborg has already decided to spin off its 42.9 per cent holding in Boliden, the North American mining and metals company.

The move is aimed at transforming Trelleborg from a loose industrial conglomerate into a more focused engineering company, concentrating on areas such as solid tyres for the agricultural and farming industries.

Trelleborg is the world's largest manufacturer of such tyres and wheel systems, with a market share of more than 20 per cent.

Assets earmarked for disposal are expected to include BPA, the electrical installation company, and Sorb Industri, the manufacturer of demolition equipment.

The restructuring follows the arrival of Fredrik Arp as Trelleborg chief executive earlier this year.

Mr Arp, previously chief executive of Nordic packing

group PLM, confirmed he was evaluating the future structure of the group but declined to comment on its likely shape.

Pressure for change has mounted over a sharp fall in profits last year, which fell from SKr2.55bn (\$305m) to SKr492m following losses at Boliden and other non-core businesses - even though sales rose from SKr20.8bn to SKr25bn.

"They are reviewing all the businesses they are in. It has been a conglomerate for too long," said one investment banker yesterday.

Trelleborg's most commonly traded B shares have climbed 16 per cent in the past month in anticipation of the restructuring, but yesterday closed down SKr1.20 at SKr65.50.

Swiss sanitary group prepares to test the water

Float of Geberit by Doughty Hanson will be closely watched, writes William Hall

The Swiss may enjoy making money, but they are less keen on foreign investors doing well at their expense. So plans by Doughty Hanson, the UK leveraged buy-out company, to float Geberit, a 125-year-old Swiss sanitary systems manufacturer, will be examined with particular closeness by Swiss investors.

It is less than three years since Doughty Hanson floated Tag Heuer, a luxury Swiss watch company. The SFR54m (\$408m) issue raised a lot of money for Doughty Hanson and its partners, but investors in the Tag Heuer IPO have fared nowhere near as well. Its shares are still trading at close to half the SFR245 issue price.

There is a big difference, however, between Tag Heuer and Geberit. One markets branded luxury watches, and has been hit by the collapse in Far Eastern luxury goods spending. The other is European market leader in sanitary technology, such as plumbing installation, internal water supply and drainage, and lavatory flushing systems. It is a high-margin business and less cyclical than that for traditional building materials.

The only quoted competitors are UK companies such as Glynwed, Caradon and Hepworth. Geberit's European competitors, such as F. Grohe, Wavin, Friatec, ETEX and Viegener, are generally unknown to investors.

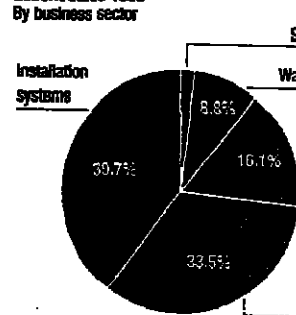
Geberit does not compete in low-margin sanitary ware, such as ceramic basins and bath tubs, where there is substantial over-capacity. In continental Europe the company accounts for more than half of all plumbing installation systems.

Its future lies in perfecting low-noise drainage systems, water-saving technology, and "touch-free" electronic taps and lavatories.

Since 1993 there has been no growth in European con-

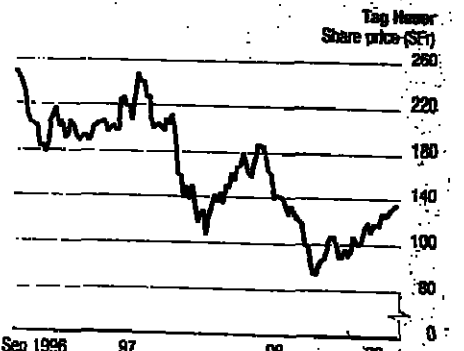
A tale of two IPOs

Geberit sales 1998 by business sector



Total sales: SFR1.1bn

Source: Doughty Hanson/Geberit Company



SUN LIFE GLOBAL PORTFOLIO (SICAV)

Registered Office: 50, avenue J. F. Kennedy Luxembourg

R.C. Luxembourg B27526

DIVIDEND ANNOUNCEMENT

The Board of Directors announces that a dividend has been declared on each of the below mentioned portfolios at the rate per share which will be paid on 12th May 1999 to the respective Shareholders of those portfolios as recorded at the close of business on 31st March 1999

1.00p (UK) per share for Haven Portfolio
0.94p (UK) per share for Distribution Portfolio
1.80p (UK) per share for UK Growth Portfolio
9.20 cents (US) per share for Global Bond Portfolio
15.00 ptefings (DM) per share for Ecological Portfolio

The Board of Directors 1st April 1999

NATEXIS BANQUE

(CREDIT NATIONAL)

FRF 600 000 000 S.40%

BONDS DUE 2003

WHITE COUPON

REINVESTMENT OPTION

Common Code : 3451355

Securam Code : 14762

According to the terms and conditions of the Bonds, none is hereby given that

783 supplementary Bonds have been created upon exchange against

Coupons on account of payment of interest.

New total nominal amount outstanding

as of : 29/04/99, FRF 1 013 400 000

THE PRINCIPAL PAYING AGENT

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FORD CREDIT

AUTO LOAN MASTER TRUST

Series 1997-1, Floating Rate

Auto Loan Asset Backed

Certificates

Due April 15, 2002

(ISIN Number: XS0075763150)

In accordance with the terms of the documents governing the above-referenced Certificates, notice is hereby given that the Certificate Rate per annum for the Interest Period commencing April 15, 1999, to July 14, 1999, shall be 5.000000%.

The amount of interest payable on July 15, 1999, in respect to each U.S. \$1,000 principal amount of Certificates will be U.S. \$12.500000.

THE CHASE MANHATTAN BANK as Calculation Agent

April 22, 1999

Chemical Banking Corporation

(Now Chase Manhattan Corporation)

U.S. \$100,000,000

Subordinated Floating Rate Notes Due 2003

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from April 22, 1999 to October 22, 1999 the Notes carry an interest rate of 5.50% per annum.

The interest payable on the relevant interest payment date, October 22, 1999 against coupon no. 31 will be U.S. \$279.58 per U.S. \$100,000 note and U.S. \$2,795.83 per U.S. \$100,000 note.

By The Chase Manhattan Bank

London

LEGAL NOTICE

GRASS PRIDE ASSOCIATES LIMITED

(In administrative receivership)

NOTICE IS HEREBY GIVEN pursuant to Section 85(1) of the Insolvency Act 1986 that the Receiver has been appointed to the assets of the above-named company and that the Receiver's office is situated at 10 Queen Street, London EC4A 3DF.

A copy of the report prepared by the Receiver in accordance with the provisions of Section 85(1) of the Insolvency Act 1986 is available for inspection at the Receiver's office.

Creditors are asked to submit claims to the Receiver.

Orders have been delivered to an Adjudicator at 10 Queen Street, London EC4A 3DF, for the issue of a writ of sequestration against the assets of the above-named company.

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A copy of the report prepared by the Receiver in accordance

COMPANIES & FINANCE: ASIA-PACIFIC

TELECOMMUNICATIONS UK GROUP IMPROVES ON Y62.4bn BID IN ATTEMPT TO LURE SHAREHOLDERS AWAY FROM JAPANESE CARRIER NTT

Cable and Wireless raises offer for IDC

By Michio Nakamoto in Tokyo

Cable and Wireless, the UK telecom group, yesterday raised its offer for IDC, the Japanese international telecom carrier, in a bid to lure shareholders away from a rival offer by NTT.

The UK group, which is a founding shareholder in IDC with a 17.7 per cent stake, bypassed the IDC board and took its higher bid directly to other founding shareholders, including Toyota, Itochu

and Airtouch. "The discussion with founding shareholders today was constructive and there was considerable interest in our new offer," C&W said.

However, it did not indicate by how much it had increased its initial offer of Y62.4bn (\$527m) in cash. Under an agreement between founding shareholders, C&W has the right to match NTT's offer which was recommended last week by the IDC board.

C&W indicated that its new offer was higher than the offer by Japan's dominant domestic operator, NTT, which is believed to be offering Y63bn-Y68bn in a cash and share deal.

The IDC board rejected C&W's initial offer in favour of a counter-offer by NTT on the grounds that NTT ensured job security for IDC employees. However, NTT has indicated only that it will offer IDC employees jobs within the NTT group "in principle", according to sources close to the deal.

Thai banks held back by Asia downturn

By William Barnes in Bangkok

Thai banks continued to feel the effects of the Asian financial crisis, demonstrated by poor first-quarter results announced yesterday.

For the full year, the bank faces a favourable environment. Some successful restructuring of clients' problem loans are expected to provide interest income, while the cost of funds has fallen from Bt11.4bn to Bt9.6bn, year-on-year.

Interest income slipped at a slower rate from Bt13.9bn to Bt12.2bn.

The state-controlled Radaasiri Bank, which absorbed the remains of the failed Laem Thong Bank last year, said it incurred a loss of Bt44.7m over the quarter, compared with a Bt69.8m loss a year earlier.

The bank is trying to boost its capital base prior to its partial sale to a strategic investor within the next three months.

Meanwhile, Sir Patrick Gilman, chairman of Standard Chartered, said his institution was negotiating with the Thai central bank over what obligations it might incur in taking over the small, troubled Nakornthon Bank. The bank of Thailand said on Monday that Nakornthon would have to decide by April 29 whether to opt for Standard Chartered or the United Overseas Bank of Singapore.

Shareholders smile as Japanese company shines

Asian companies have often been blamed for aggravating the economic crisis by cronyism, lack of transparency and trampling on the rights of minority shareholders. But a few groups have led the way in maximising shareholder value.

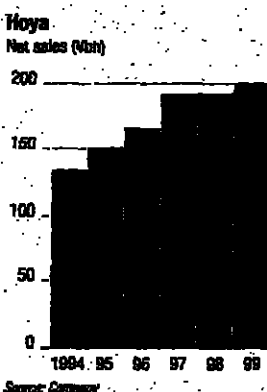
In the first of a series, Paul Abrahams looks at Hoya, the optical glass manufacturer

Hoya is the sort of Japanese company that ought to be in trouble. It operates in a terrible environment. The group sells spectacles and glassware to Japan's reluctant consumers; it supplies the semiconductor industry, which has been devastated by price wars.

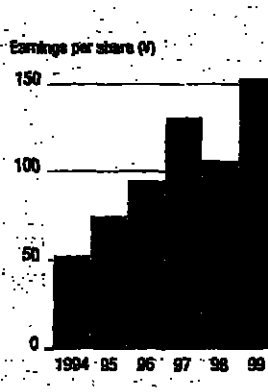
Yet this month the group's shares hit an all-time high of Y7,500. Nor is this some overnight phenomenon. In the past five years Hoya has outperformed the Topix index of all first section shares on the Tokyo stock exchange by 350 per cent.

Despite the recession, the company yesterday announced record net profits for the year ending March of Y17.5bn (\$151m) on record sales of Y201bn.

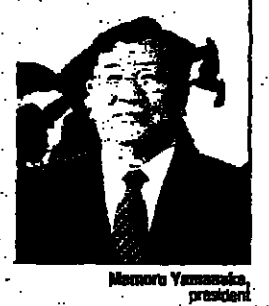
Hoya's astonishing stock market performance is partly due to its legacy of dominating its chosen market segments, such as semiconductor photomasks and blanks where the group holds 85 per cent market share. But mostly it is



Source: Company



Source: Company



Mamoru Yamanaoka, president

extraordinary control over their businesses. In the past three years the group has invested heavily in information technology to improve the timeliness and quality of management information. "We've spent a huge amount on R/3 software from Germany's SAP. It was really expensive, but worth it," says Mr Yamanaoka.

"Three years ago we really struggled to know what was happening in our own company," says Mr Ema. "Even the coding for individual components was different within our subsidiaries. Now we can monitor the cashflow and profit and loss account at 50 consolidated companies and examine up to 1,000 individual businesses. We can cut the data by business or geography."

One result is that Hoya has monthly management reporting. It also has quarterly budgeting, allowing it to allocate capital in a more appropriate and timely manner within the company, as circumstances dictate. Most Japanese companies set their budgets every 12 months. "The information

has been fantastic at helping line-managers make decisions," says Mr Ema. He explains that production managers have a tendency to be obsessed by output volumes and quality, wanting to buy equipment that makes products better and more quickly, without any thought of return on investment.

"We can supply information at an early stage and show them that if they put in all the costs - equipment, machinery, electricity, labour - then buying a piece of equipment may damage the company," he explains.

The group has abandoned return on equity as a performance measure, even though its 11.2 per cent return is, by Japanese standards, sensational.

Mr Ema is dismissive of ROE, arguing that it can encourage companies to take on more debt, or cut back on important capital spending. "If we'd only looked at ROE, then we would never have invested in photonics, a technology involving lasers and optical fibres that has

the potential to become a big profit centre," he says. Instead, the company has set itself the goal of increasing shareholders' value added (SVA).

Figures highlight retailers' difficulty

By Naoko Nakamae in Tokyo

Two leading Japanese supermarket operators yesterday announced results reflecting the severity of the retail environment as consumer spending collapses amid the country's recession.

Daiso, Japan's largest supermarket operator, yesterday announced a group net loss of Y41.3bn (\$349.2m), down from a Y1.2bn profit in fiscal 1997.

Seiyu, the fifth largest, posted a Y1.8bn group net profit, up from a Y6.5bn loss the year before. But the large jump was largely due to a Y80bn exceptional profit thanks to major creditors forgiving some loans.

Seiyu's group pre-tax profit excluding exceptionals fell 25.7 per cent from Y6.7bn to Y5bn.

Daiso's poor results reflected its ailing business and its large debt burden. At the end of fiscal 1998, the retailer was struggling under Y2,500bn of liabilities - the result of over-expansion during Japan's "bubble" years in the late 1980s.

Daiso said that its consolidated pre-tax profit excluding exceptionals were Y11.1bn in fiscal 1998, up from a Y9.5bn loss the year before.

However, its sales fell 4.1 per cent from Y3,183bn to Y3,032bn. Daiso said it expected to return to profit in the current fiscal year, predicting a Y1bn consolidated net profit and a Y13bn pre-tax profit excluding exceptionals.

Analysts said Daiso's target for fiscal 1999 was too optimistic. "Daiso was originally looking to make a profit [in fiscal 1998], so the Y41.3bn [group net] loss is pretty appalling."

"The question now is whether it has made any changes to its debt reduction plan," said Michael Wheatley, retail analyst at Paribas Capital Markets in Tokyo. Analysts were happier about Seiyu's results. Unlike Daiso, which has a problem both with its operations and its subsidiaries, they said Seiyu's operations were looking better.

"Seiyu had a change of management in 1997 which triggered a change in its business - I think its core business is back on track now," said Masahiro Matsuda, retail analyst at Warburg Dillon Read in Tokyo.

The Industrial Bank of Japan and Dai-ichi Kangyo Bank yesterday agreed to forgive more than Y117bn of loans to Tokyo City Finance, Seiyu's struggling finance arm.

PAL creditors say rescue plan 'unacceptable'

Tony Tassell in Manila

The outlook for the rehabilitation of Philippine Airlines was further clouded yesterday after its leading creditors warned that changes to a proposed plan were "unacceptable".

In a letter to the Philippine Securities and Exchange Commission, the US Export-Import Bank said it was "greatly concerned about the manner and substance" of the changes made by Lucio Tan, PAL's majority shareholder, following his attempts to regain direct management control of the ailing national flag carrier.

The Philippine-Chinese tycoon, one of the most politically influential in the country, called a meeting of the PAL board on Monday to reassess the role of chief executive and elected an ally, Avelino Zapanta, as chief operating officer.

At the same time, Mr Tan pledged to put together a group of investors to provide a critical \$300m cash infusion for the airline subject to undisclosed conditions.

In the letter, also written on behalf of European credit agencies, the Export-Import Bank demanded immediate clarification from the SEC about the authority of the board to make such changes.

It said the changes were made "outside the context of a transparent process" and were to the detriment of PAL creditors and other stakeholders.

The European credit agencies had funded the carrier's purchase of 10 Airbus Industrie jets, while the bank backed the acquisition of four Boeing aircraft. The creditors had rejected an earlier plan to revive the loss-making airline, which has more than \$2.3bn of debts, partly because of Mr Tan's management control.

This led to recruitment of five executives from Cathay Pacific as management advisers to the company and the appointment of Luis Juan Virata, an investment

PHILIPPINES SECTOR STANDS OUT AMID REGIONAL CRISIS

Electronics light up a way through the gloom

By Tony Tassell

There have been few bright spots on the Asian industrial landscape in the midst of the region's economic crisis, but the Philippine electronics industry has proved to be one of them.

One of the largely unheralded success stories in Asia, the industry has expanded sharply over the last five years. Even during the crisis, exports of electronic goods grew more than 30 per cent in 1998 as new plants came onstream - one factor behind the Philippine economy's unexpected resilience last year.

The success reflects a legacy of the efforts of Fidel Ramos, the former president, to promote the Philippines as an electronics manufacturing base. Between 1992 and 1998, companies either setting up or expanding operations there included Texas Instruments, Intel, Motorola, National Semiconductor, Philips, Toshiba, Fujitsu, Hitachi and Yamaha.

But while a recent World Bank report concluded the country might have "the world's most advanced export structure" due to its high percentage of high technology products in total manufactured exports, concerns are growing over how the growth in electronics manufacturing can be sustained. There are also worries over relying on one industry for exports.

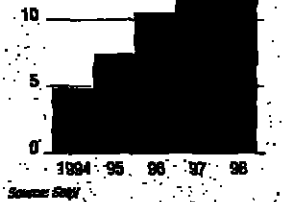
High technology products accounted for 67.8 per cent of total manufactured exports from the Philippines in 1998, outstripping other countries widely considered more technologically advanced, such as Singapore (56.4 per cent), Taiwan (40.9 per cent) and Malaysia (30.4 per cent).

"The high dependence on one activity to drive national exports is risky, however dynamic that activity," the World Bank report noted, pointing out that 84 per cent of export value growth for the Philippines over 1991-97 came from electronics.

Shop floor wages are about \$200 to \$250 a month, compared with \$300 to \$350 in Malaysia. Similarly, the wages of a senior production supervisor would be about \$500 to \$600 in the Philippines compared with about \$1300 in Malaysia.

Norberto Viera, president of Texas Instruments in the Philippines, adds that while labour costs may be higher than in some countries, productivity and the availability of skilled workers is also higher.

He points out 70 per cent of the employees at his com-



Source: Dept

NEWS DIGEST

AIRLINES

Garuda aims to cut costs through Swissair contract

Garuda Indonesia, Indonesia's national carrier, has signed a contract with Swissair that will help save \$11.55m in maintenance cost and future investment. The contract marks another step taken by the debt-laden carrier to cut its operating costs and bring the airline back to profitability.

The three-year maintenance pooling agreement states that Swissair will supply Garuda with components for its six Airbus-330jets while Garuda will send unserviceable components to Swissair, a unit of AirGroup of Switzerland.

Garuda will pay US\$2.84m a year for the service, compared with the estimated maintenance cost of \$4.99m without the pooling agreement. In addition, Garuda will save \$9.4m as part of an ongoing investment to procure additional A-330 spare components.

Richard Budihardanto, the airline's executive vice president of engineering and maintenance, said: "We try to reduce our cost in several areas and maintenance is one of them." Dow Jones, Jakarta

THAILAND

World Bank to guarantee bond

The Electricity Generating Authority of Thailand is looking to issue a tranche of bonds guaranteed by the World Bank. The state energy giant is planning to issue \$300m by July. The issue is expected to have the same principal and rolling coupon guarantees of a 10-year eurobond tranche issued in October.

The World Bank may choose however to offer only to guarantee the principal because conditions have improved over the past six months, according to Angoon Kamolyabutr, EGAT's assistant governor for finance.

The multilateral agency was brought in because Thai sovereign debt had fallen to junk levels.

William Barnes, Bangkok

SINGAPORE

Power group in sell-off plan

Singapore Power is to divest its two power-generation companies, PowerSenoko and PowerSeraya, by 2001 as the group restructures, said Ho Kwon Ping, Singapore Power chairman.

The two companies represent about one-third of the group's net assets and 55 per cent of its revenue.

Sheila McNulty, Singapore

COMPARTMENT

MBS-2 AND MBS-3 of MBS S.A.

Openbare V.B.S. naar Belgisch Recht
37, avenue Franklin Roosevelt, 1050 Brussels
Brussels Trade Register 618.247

Notice to the noteholders of MBS-2 and MBS-3, compartments of MBS S.A., a Belgian public company for investment in debt securities.

Pursuant to the Terms and Conditions of MBS-2 and MBS-3, BACOB Bank has decided - by virtue of the power conferred on it by the Board of Directors of MBS S.A. on 5 November 1998, to redenominate the euros on the 25th of May 1999 all outstanding amounts of Class A-1 Notes (ISIN Code BE0002215845), Class A-2 Notes (ISIN Code BE0002215850), Class A-3 Notes (ISIN Code BE0002215855) and Class B Notes (ISIN Code BE0002215860), of the MBS-2 and MBS-3 compartments and all outstanding amounts of Class A-1 Notes (ISIN Code BE0002215872), of the MBS-2 compartment and all outstanding amounts of Class A-1 Notes (ISIN Code BE0002215880), Class A-2 Notes (ISIN Code BE0002215885), Class A-3 Notes (ISIN Code BE0002215890) and Class B Notes (ISIN Code BE0002215895), of the MBS-3 compartment, at the official conversion rate of 1 EUR = 40.3399 BEF. The existing denomination of the Notes in BEF shall be redenominated into a new denomination, without decimals, rounded down to the nearest euro. MBS will settle the fractional difference in cash on the conversion date. The new denomination of the Notes will be of EUR 123.946. It has also been decided to redenominate the Terms and Conditions of the Notes so as to bring them into line with market conventions as amended by the introduction of the euro such as to insert the determination of the Rate of Interest in respect of each class of Notes as any interest Period based on the Eurobor (Interate page 248) and the actual number of days elapsed in the relevant Period divided by a 360 day year. Pursuant to the Terms and Conditions, all the amendments are deemed to be applied.

The amended Terms and Conditions will - save for unexpected circumstances - be applied for the first time in respect of the Interest Period beginning on 25 May 1999.

The existing Permanent Global Notes for Class A-1, Class A-2, Class A-3 and Class B Notes of the Compartments MBS-2 and MBS-3 will be replaced by new Permanent Global Notes for each relevant Class of Notes redenominated in euros and reconfirmed as amended.

A copy of the amended Terms and Conditions of the Notes of the Compartments MBS-2 and MBS-3 is from 25 May 1999 on available on request at the office of the Paying Agent, BACOB Bank S.C., 25 rue de Tervet, 1040 Brussels, and will be amended as an Amendment to the Prospectus. The full text of the Terms and Conditions is also available on the T.B.E. Website, <http://www.tb.be>

COMPANIES & FINANCE: UK

MEDIA CABLE OPERATOR PULLS PLUG ON NEWCASTLE DEAL FOLLOWING BLOCKING OF BSKYB TAKEOVER OF MANCHESTER UNITED

NTL decides against bid for football club

By Cathy Newman and Patrick Harverson in London and William Lewis in New York

The prospect of mergers between media companies and football clubs receded further yesterday after NTL, the UK's third biggest cable operator, said it had decided not to bid for Newcastle United.

At the end of last year, NTL paid £10m (\$16m) for a 6.3 per cent stake in the Premier League club, and secured an option to take

control of the company in a deal that would have valued it at £100m. However NTL has shelved its plans to make a bid following the government's recent decision to block British Sky Broadcasting's takeover of Manchester United.

The news heightened speculation about NTL's other acquisition plans. It emerged yesterday that NTL's chairman, George Blumenthal, is interested in a transaction with Telewest Communications, the UK's second larg-

est cable company, and Cable & Wireless Communications, the country's biggest.

"We are interested in any transaction with either or both of the parties that make sense," Mr Blumenthal said. However, he declined to comment on what moves NTL had made to open talks with Telewest and CWC.

NTL's possible offer for Newcastle had been referred to the Competition Commission. It is understood that following conversations

with the commission, NTL realised the government was likely to conclude that it would be better for broadcasters not to own football clubs.

However, NTL is still keen to assess "other opportunities" in football. It is believed NTL is talking to various clubs about investing in them in return for the right to exploit their assets.

Some telecoms analysts suggested that NTL could have been reluctant to wait for an outcome from the

commission because the company was keen to pursue other acquisitions.

Geoffrey Hamilton-Fairley, chief executive of Premium TV - NTL's sports television subsidiary - said NTL was "content" to hold 6.3 per cent of Newcastle, and was "happy with the long-term value that stake represented".

Newcastle privately admitted it was not surprised about NTL's decision. The fear that the government had scared off all potential

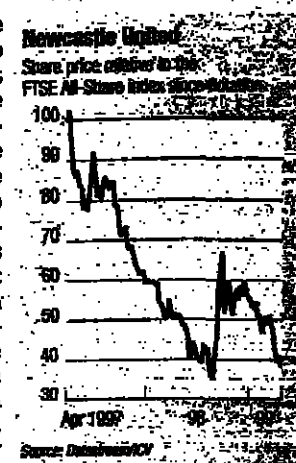
media buyers of clubs had already undermined football share prices. NTL's withdrawal from its deal with Newcastle deepened the sector's losses yesterday.

Newcastle's shares shed 5p to close at 73 1/2p. But Nick Batram, football analyst at Greig Middleton, the stockbroker, said: "This is not finished. The whole basis of why media companies want to buy clubs [to gain access to valuable programming content] has not gone away."

COMMENT
Newcastle United/NTL

Who is cheering the George Nation now? Cable group NTL's decision to drop its planned bid for Newcastle United leaves minority shareholders ashen-faced: the shares have fallen from the 1997 flotation price of 135p to 74p. An offer of 112p, representing nearly four times prospective sales, was decent for a club suffering from extreme management disruption - only two of the nine original directors have put in uninterrupted service - and a mediocre playing record.

Investors can only hope for another bidder. NTL's pessimistic reading of its chances at the Competition Commission does not seem warranted by the latter's report on British Sky Broadcasting's bid for Manchester United. So long as NTL remains a minnow in the sports channel market, it is hard to see how its ownership of Newcastle would reduce competition for Premier League rights. One explanation is that NTL might be clearing the decks for ambitious deals in the UK cable sector. If it is casting an eye over both Telewest and Cable & Wireless Communications, its caution is more understandable.



Average earnings

Could the Bank of England be bamboozled by average earnings numbers again? Back in June 1998, the Bank raised UK interest rates in response to a worrying rise in the earnings numbers, which subsequently turned out to be statistically dubious. Yesterday's jump in the three-month average annual increase in earnings to 4.6 per cent caused some in the market to worry that the Bank might postpone a further cut in interest rates on the same basis. But the data are still being revised - there is a new basis for calculating bonuses - and thus represent a slender basis for policy making. Survey data on wage settlements show no sign of an upward drift and the expected fall in headline inflation later this year should apply further downward pressure. The labour market is still tight, but the US has shown that even tighter markets can exist without apparent inflationary pressures. While the bottom in the rate cycle cannot be far away, the Bank should beware being caught out by a rogue statistic again. UK rates remain the highest among the Group of Seven leading industrial countries, sterling is strong and the economy is barely growing. One must hope that the bias towards easing shown in the April minutes is not exhausted.

'There's gold in them there streets'

As Anglo American ups sticks to London, Gillian O'Connor assays its prospects

Anglo American, the diversified mining group that is moving its domicile and listing from Johannesburg to London next month, is expected to publish its prospectus today.

The company that will join the London market is being formed through a merger of Anglo American Corporation of South Africa (AAC) and the Luxembourg-quoted Minorco. Shares in the two are due to be delisted on Friday May 21, and dealings in the new Anglo's shares are expected to start the following Monday.

The company, which is not issuing any new shares at the time of its London listing, is expected to have a market capitalisation of \$8bn-£10bn (\$14bn-£16bn). It is likely to be elected to the FTSE 100 index at the committee's quarterly meeting on June 9 - a change that would come into effect on June 21 - and would come into the top half of the index. This could produce an artificial shortage of shares, since index-tracking funds will have to buy them, and there is no new supply source.

The broad shape of the enlarged company's portfolio is already clear. It will have interests in gold, diamonds, platinum, coal, base metals and minerals, forest products, financial services, agribusiness and chemicals.

But the old Anglo and Minorco had different year ends, and the management has been rationalising both companies' structures - buying in some minorities and selling some non-core businesses. So pro-forma accounts showing the up-to-date business split should be one of the most interesting items in the prospectus.

Anglo's pro-forma accounts for the year to December 31 1998 showed operating profits slightly ahead and pre-tax profits and headline earnings slightly down, but the company pointed out that the pressure on commodity prices could affect prospects. Earnings at Minorco, which embraces the interests outside Africa, were roughly halved, mainly because of depressed commodity prices in the base metals and agribusiness divisions.

Most analysts are waiting for the prospectus before compiling detailed spread sheets. And they caution that, since earlier accounts from Anglo, Minorco and De Beers (the diamond company with which Anglo has cross shareholdings) have been unusually opaque, there is an unusually large number of outstanding questions.

The recent fashion for cyclical shares has brought mining stocks into unusual prominence in world stock markets. Shares in the two big companies listed in London - Rio Tinto and Billiton - have risen by 43 and 57 per cent so far this year. In Johannesburg, Anglo American and De Beers are up 74 and 79 per cent.

Analysts are worried that mining shares may have raced too far ahead of fundamentals. Most metal prices are still sluggish, and only a modest upturn is expected later this year and next. But they agree the sector background makes Anglo's launch timely, and some reckon it looks cheap against other mining shares. Russell Skirrow of Merrill Lynch points to the prospective p/e for 1999 of about 15 compared with 27 for Rio and 23 for Billiton.

Web of companies is unravelled

Anglo American and De Beers are the two most important names in the clutch of companies long controlled by the Oppenheimer family of South Africa, writes Gillian O'Connor.

The patriarch, Ernest Oppenheimer, used diamond profits from De Beers to finance the gold mines that were the original cornerstone of Anglo. Minorco is a more recent creation, designed to hold the non-diamond, non-South African interests. Minorco is being subsumed within the new Anglo American, but De Beers will remain a separate

and connected company. After the London launch, Anglo will own 30 per cent of De Beers. De Beers will own 40 per cent of Anglo, and the Oppenheimer family almost another 10 per cent.

Anglo channelled its cash flow into a wide array of non-mining businesses in South Africa, such as financial services, breweries and paper. Now the management is rationalising its interests in focused divisions. And it wants Anglo to move on to the world mining stage - hence the absorption of Minorco and the move to London.

Travel industry consolidation could mean more time in the sun

The issues of price and competition could return if Airtours bids for First Choice, writes Scheherazade Daneshkhoo

British holidaymakers are enjoying some good holiday bargains at the moment: a flight to Portugal for £82 (\$100), or a week in the Indian Ocean for £299 - prices that the industry can cite as evidence of its competitiveness.

The twin issues of holiday prices and competition - matters that had appeared to be settled - are likely to resurface if Airtours, the UK's second largest tour operator after Thomson Travel Group, mounts a hostile bid for First Choice, the tour operator that has already struck a £1.5bn merger agreement with Switzerland's Kuoni.

The historically volatile tour-operating industry appeared to have put price wars behind it after a disastrous 1996 when it misjudged consumer demand and supplied the market with too many holidays - which ended in forced discounting at the expense of profits.

Since then the larger participants in the industry have rebuilt profits by reining in supply. Such stability has helped its image and improved market ratings, notably for Airtours.

This business has also benefited from a wealthy backer in the shape of Carnival Corporation, the Miami-based cruise line that has a 25.9 per cent stake, and from a strategy of overseas expansion to lessen dependence on the UK market.

To the dismay of smaller travel companies, which had argued that the larger holiday groups used their size to squeeze them out, the industry was also declared "broadly competitive" by the Competition Commission 18 months ago after a year-long investigation.

This was despite acknowledging that the large groups often use their in-house travel agents to promote their own holidays, a process that has since intensified. Thomson owns Lunn Poly, the largest chain of travel agents, and Airtours owns Going Places, the second largest.

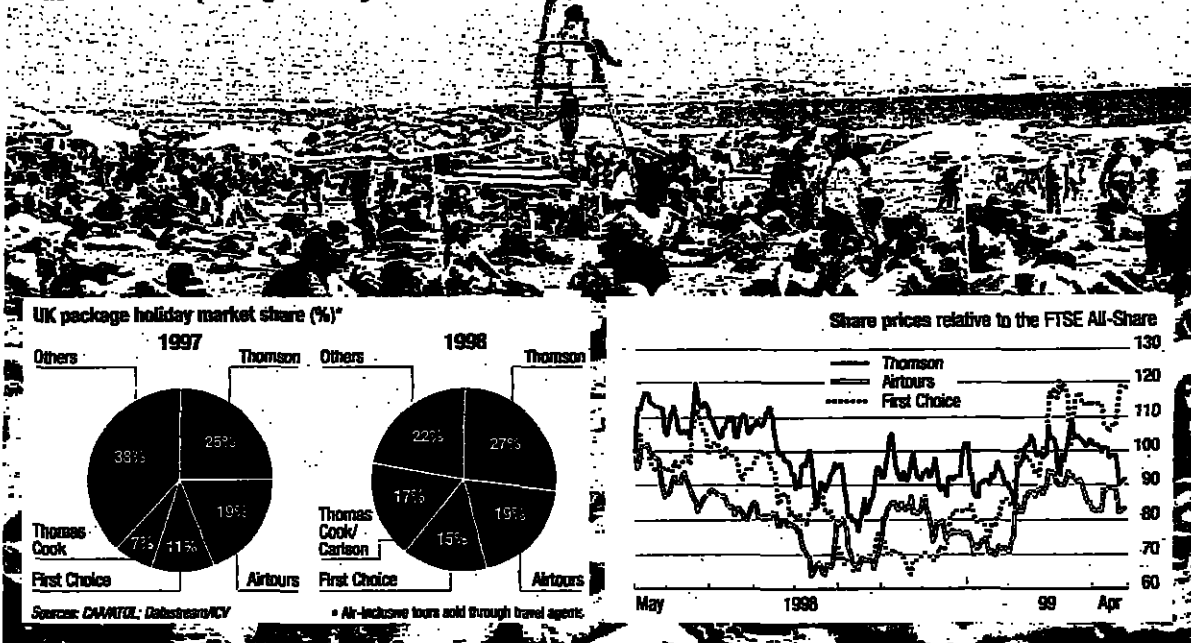
The commission's report paved the way for increased consolidation: the top four operators - Thomson, Airtours, First Choice and Thomas Cook/Carlson - account for 80 per cent of package holiday sales, compared with just over 60 per cent in 1997.

A successful Airtours bid for First Choice, after its failed attempt in 1993, would be the largest step in that consolidation and would alter the industry's structure substantially.

That possibility has already provoked outright opposition from Thomson and First Choice. Preussag, the German travel company, which has recently entered the UK market through a controlling stake in Thomas Cook, is also likely to oppose such a move.

A combined Airtours/First Choice would have 34 per cent of the market, against Thomson's 27 per cent and

Beach-head: the package holiday battle



Thomas Cook's 17 per cent. Thomson said it had no plans to relinquish its position as the UK's largest package holiday group, a position it has historically defended by increasing holiday supply.

Fears that this could herald a return to holiday price wars sparked the falls in the share price this week of both Thomson and Airtours, though both regained some ground yesterday.

Ian Clubb, First Choice chairman, warned against a "reckless gamble" that could trigger another regulatory inquiry and questioned the likelihood of Airtours abandoning its geographical diversification strategy.

However, there are good reasons why Airtours might be prepared to sacrifice such a strategy for the time being.

Although a bid for First Choice would be partially defensive to prevent Kuoni - at least temporarily - from gaining a foothold in the UK market, there would be synergy and potential cost saving benefits too.

A takeover would also make Airtours the UK's largest package holiday group. BT Alex Brown estimates cost savings of £20m-£30m against analysts' estimates of £10m-£12m of savings in the First Choice/Kuoni merger.

Airtours needs high passenger volumes to sustain businesses that it has developed on the back of UK tour operating. It would be able to amalgamate its own tour operating business in Canada with that of First Choice. A merger would also address First Choice's distribution weakness.

Jason Holden, leisure analyst at BT Alex Brown, said: "Should Airtours successfully bid for First Choice this would be very much in the interests of both companies' shareholders. But if Thomson attempted to undermine the deal by initiating a price war or a big boost in capacity, this would disadvantage shareholders of all three groups and perhaps, most of all, Thomson shareholders."

Seasoned holiday bargain-hunters without a holding in the sector will be hoping otherwise.

Liberty claims financial future secured

By Richard Rivlin

Liberty, the Regent Street department store group, has lined up £23m (\$37m) worth of banking facilities to fund its five-year strategy plan in a deal it said yesterday had secured its financial future.

The board, reporting its first full-year figures since it took control last March following two boardroom coups, also announced a modest return to profit. Pre-tax profits for the year to January 30 were £152,000 against an £11.5m loss.

although turnover fell to £97.7m (£72.1m).

The five-year plan aims at putting the group on a firm financial footing and delivering substantial profits. It was launched by the new management, chaired by Philip Bowman, after the previous management's plans for a £23m re-development of the company's flagship Regent Street site in London's West End were abandoned last August.

The group has secured a 15-year £10m term loan from Barclays which, with other

funding facilities from the bank, will be used to redevelop the store and expand the branded merchandise business.

Michelle Jobling, managing director, said: "There are three elements to the strategy. There is a lot of work to do to refurbish the Tudor building (the Regent Street store) and improve customer service. Then we must re-energise the Liberty brand which will take three years, expand the channels of distribution and finally improve our property side."

She confirmed that Liberty was in talks with rival retailers about launching its first set of concessions by summer next year. There are no plans to get out of its two stores at Heathrow airport or from its single provincial store in Windsor. The mall order division is to expand, and an e-commerce site will be launched by October.

The board does not intend to pay a dividend to ordinary shareholders but has resumed payment of the preference share dividend. Brian Myerson, who repre-

sents the 17 per cent shareholder Concerto Capital Corporation, said: "We have made enormous strides to stabilise the business and put it on a firmer footing. The strategy is not pie in the sky. It is a meaningful and achievable one."

The group also announced that Capital Partners, a US active investor, has built up an 11 per cent holding. Broker SG Securities is forecasting a £600,000 loss for the current year but a £1.2m profit for the year to January 2001.

Festival Parks Europe to copy US rivals

By Juliette Jovitt

A European retail and leisure development company will be launched today which will aim to copy the success of joint factory shopping and entertainment centres in the US.

Peter Thomas, the Welsh property magnate, and Paul Bailey, co-founder of TBI, the property and airports group, are backing Festival Parks Europe with £150m (\$242m) to build and run 10 new centres over five years.

The new company is one of several UK developers looking to mainland Europe because of tightening planning laws and growing competition in the UK.

Gerald Ronson's Heron City brand has acquired nine sites in Europe. BAA McArthur Glen is expanding on the continent, and the Mills Corporation - which pioneered the multi-leisure concept in the US - is said to be interested in expanding across the Atlantic.

Festival Parks' first scheme - a £56m development near Palma, Majorca - will open next year. Three further sites have been acquired in Sweden and Spain, and three more are under consideration in mainland Europe.

The company, to be unveiled at the International Council of Shopping Centres fair in Madrid, is aiming for a public listing in five years at a value of £500m.

Vincent McNabb, managing director, said the joint retail-leisure developments would offer a range of activities on single sites of 300,000-600,000 sq ft. They will include factory shopping, cinemas, amusement arcades, restaurants, bars and other attractions. The Majorca development will have two discos, a science centre and mini-golf.

Schroders finance director resigns

By Clay Harris

Richard Broadbent has resigned as the global head of corporate finance at Schroders, the UK's largest remaining independent investment banking and fund management group.

Mr Broadbent, 46, has spent 13 years at Schroders. Since 1986 he has been based in New York, where he was sent to exert more influence on Schroder & Co, the US investment banking subsidiary formerly called Schroder Wertheim.

Although the UK group had taken full ownership of the former joint venture in 1994, the New York-based business had kept its own culture, and the UK parent felt it was not always getting the full benefits of its US investment.

Win Bischoff, Schroders chairman, said yesterday that the changes in personnel and reporting lines introduced under Mr Broadbent had the full support of Schroder & Co management and would not be affected by his departure.

Mr Broadbent, who was not available for comment, is not believed to have plans to move to another bank.

European plea to Aim

By David Blackwell

Most of the companies listed on Aim believe it would benefit from closer links with a European exchange, according to a survey by Mazars Neville Russell, the accountants, published today.

They say Aim lacks access to European capital and should consider integration with another exchange, such as the Neuer Markt in Germany or the Nouveau Marché in France, which between them provide 90 per cent of the capital for the European group of exchanges known as Euro NM.

Philip Chamberlain of Mazars Neville Russell believes that, as there is no link with Euro NM on the horizon, "UK companies in need of equity finance

should take a wider view and consider sources from across Europe".

He points out that when Aim was launched in June 1996 it offered a unique proposition. But the European markets that have sprung up since then are trying to attract companies in high-growth sectors and have a history of outperforming their senior markets.

Mazars Neville Russell first surveyed Aim companies two years ago, finding enthusiasm for the market but dissatisfaction with the performance of advisers, and concern about costs.

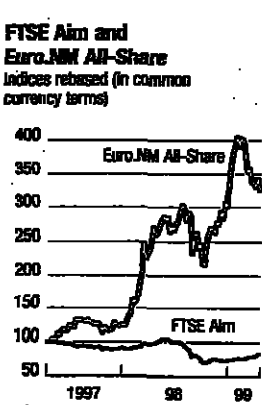
The concerns and dissatisfaction have worsened, as reflected in the fact that 40 per cent of companies recently listed on Aim considered going to venture capitalists as an alternative, up

from 26 per cent previously.

Mr Chamberlain points out that the exchange was launched to provide a low-cost, lightly regulated, active market for growing businesses. "But it now seems to be turning into an unnecessarily expensive, illiquid market where some companies are effectively cajoled into complying with the same regulations as Official List companies."

The survey reveals that Aim companies blame their brokers and institutional investors for poor trading liquidity in their shares.

But Mr Chamberlain suggests companies need to look at whether they are trying hard enough to make their Aim membership work, including releasing enough shares on to the market when they join. In 1997,



nearly half the companies said directors or original shareholders retained less than 30 per cent of shares in their company, in the latest survey, 46 per cent of companies said directors or original shareholders held more than 50 per cent of shares.

□ Mazars Neville Russell 1999 Aim Survey Results. 0171-577-1000

RESULTS

| Company | Turnover (£m) | Pre-tax profit (£m) | EPS (p) | Current payment (p) | Date of payment | Dividends: Corresponding dividend | Total for year | Total last year |
|-----------------------|---------------|---------------------|---------|---------------------|-----------------|-----------------------------------|----------------|-----------------|
| Bank of Scotland | 1,012 | 1,012 | 42.1 | 7.5 | June 25 | 6.4 | 11.6 | 8.86 |
| Carlsberg Ship | 1,271.4 | 1,271.4 | 12.68 | 12.68 | June 25 | 1.1 | 1.1 | 1.1 |
| UPS Furniture | 137.8 | 137.8 | 7.77 | 7.77 | June 17 | 4.4 | 4.4 | 14.4 |
| Dividends | 1,846 | 1,846 | 0.17 | 0.17 | July 1 | 3.4 | 3.4 | 2.3 |
| Lamb Smith Hargreaves | 47.2 | 47.2 | 15 | 15 | July 1 | 3.4 | 3.4 | 0.8 |
| Liberty | 58.8 | 58.8 | 1.38 | 1.38 | July 1 | 0.4 | 0.4 | 0.4 |
| Marshall Holdings | 41.7 | 41.7 | 1.7 | 1.7 | July 2 | 1.3 | 1.3 | 1.3 |
| Medion | 3.33 | 3.33 | 11.4 | 11.4 | June 15 | 2.09 | 2.09 | 2.09 |
| Read Executive | 243.9 | 243.9 | 23.1 | 23.1 | June 15 | 1.5 | 1.5 | 3 |
| United Finance | 107.8 | 107.8 | 1.94 | 1.94 | June 15 | 0.76 | 0.76 | 1.14 |
| Standard Invest | 13.8 | 13.8 | 18.86 | 18.86 | July 19 | 5 | 7.75 | 7.75 |
| Investment Trusts | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Average | 122.75 | 122.75 | 2.9 | 2.9 | May 28 | 2.4 | 2.4 | 2.4 |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. * After exceptional charge. * After exceptional credit. † On increased capital. * Comparative prior period. * Comparative raised. † Aim stock. All Results prior period.

EURO MARKETS

Forestry groups flourish as pulp prices rise

A strong dollar and merger hopes have also produced big gains in the sector following some lean years, writes Nicholas George

Shares in Europe's forestry product companies have been among the continent's star performers, boosted by higher pulp prices, a strong dollar and expectations of further mergers.

While investors have become increasingly nervous of the sky-high valuations of growth stocks, some of Europe's most cyclical shares have been outperforming their IT colleagues. In Sweden, the forestry index has risen by 30 per cent since the start of the year and there has been a rise of 27 per cent in the Finnish forestry index.

In Norway, shares in the big forestry group Norske Skogindustrier are up 24 per cent with those of Europe's largest non-Nordic forestry group Jefferson Smurfit up more than 66 per cent.

The gains are due partially to the strength of the dollar with the main products priced in the US currency. The strong dollar also makes it difficult for US producers

to compete in export markets with their European rivals. However, the real key to the recent share price gains has been falling inventories of the key benchmark pulp, Northern Softwood Bleached Kraft (NSBK).

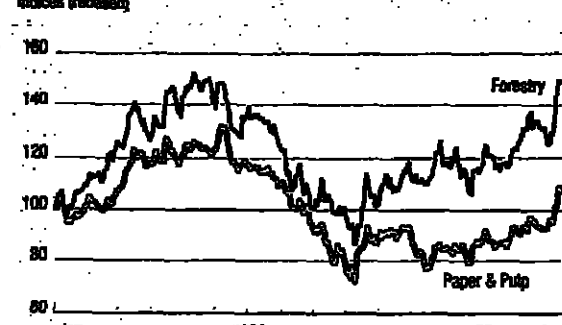
Pulp inventories among North American and Scandinavian (Nordic) producers have fallen this spring and are coming close to the 1.5m tonne level, the "magic line" which is usually the trigger for price rises.

Increases in the price of pulp, which is a basic raw material used in the paper industry, traditionally have a knock-on effect on prices throughout the industry.

In fact, pulp prices have already begun to rise. In March, Sweden's leading producers announced they were lifting the price of NSBK to \$480 a tonne from \$460 with a further increase to at least \$500 planned for the start of May.

Although these price rises look modest in comparison to levels of \$1,000 a tonne

Finland-Forestry and Sweden-Pulp & Paper Index (1995=100)



NSBK reached briefly in November 1995, most market experts think limited rises are sustainable and mark the end of a long period of decline.

"I don't think we will reach prices of \$1,000 again as it was a totally different inflationary environment then," says Kaisu Ojamaa, a forestry analyst at Swedish bank Markets in Stockholm.

"There is, however, more discipline now. We see producers raising prices by \$20

at a time, rather than \$50 as it used to be, and they are closing down unprofitable mills," she adds.

Indeed, it has taken forestry stocks as a sector some time to recover from the damage done by the sharp swings in pulp prices.

"The collapse in pulp prices in 1995 meant the sector lost a lot of credibility," says Christian Georges, an analyst with Credit Lyonnais.

"Now, for the first time for

four or five years, I have mutual fund managers who say they are more worried about not being in paper stocks than being in them," Mr Georges says.

"Stock markets are very expensive and fund managers who have been running after performance are petrified that they are going to miss the bounce in cyclical stocks."

With so many of the positive factors common to all companies in the sector there has been a considerable amount of non-selective buying with investors still keen to hold forestry.

"I think you will find that analysts are selective in their advice but the market is a great flattener of trends," Mr Georges says.

There are some exceptions though, with shares in Sweden's Asplödan up 44 per cent since the turn of the year, reflecting hopes that the appointment of a new chief executive and the disposal of large amounts of

forestry land will boost the company's performance.

The prospect of further consolidation in the area also adds to investors' interest. Last week's admission by MoDo and SCA that they are in talks about merging their fine paper operations added some substance to recent speculation.

There are concerns however as to whether the rapid increase in the sector's valuation is sustainable. For example, it has been suggested that the recent pickup in Asian demand for pulp has been prompted by paper producers taking advantage of low prices to build up inventories rather than buying for consumption.

"There are also doubts as to whether pulp producers will be able to maintain production restrictions when they see prices creeping upwards."

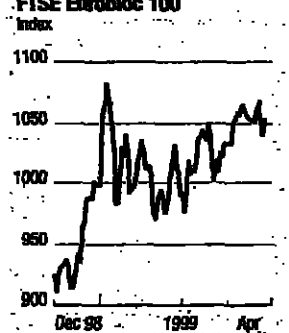
"Perhaps the development in share prices has been a bit too strong in the short term so we are cautious at the moment," Ms Ojamaa says.

CURRENCIES, MONEY & BONDS

EURO-ZONE BONDS

| Apr 21 | Rate | Yield | Change | Apr 21 | Rate | Yield | Change |
|-----------|--------|-------|--------|-----------|--------|-------|--------|
| 10yr Bund | 101.01 | 4.250 | AA | 10yr Bund | 101.01 | 4.250 | AA |
| 5yr Bund | 101.01 | 4.250 | AA | 5yr Bund | 101.01 | 4.250 | AA |
| 3yr Bund | 101.01 | 4.250 | AA | 3yr Bund | 101.01 | 4.250 | AA |
| 1yr Bund | 101.01 | 4.250 | AA | 1yr Bund | 101.01 | 4.250 | AA |
| 10yr Bund | 101.01 | 4.250 | AA | 10yr Bund | 101.01 | 4.250 | AA |
| 5yr Bund | 101.01 | 4.250 | AA | 5yr Bund | 101.01 | 4.250 | AA |
| 3yr Bund | 101.01 | 4.250 | AA | 3yr Bund | 101.01 | 4.250 | AA |
| 1yr Bund | 101.01 | 4.250 | AA | 1yr Bund | 101.01 | 4.250 | AA |

FTSE EUROZONE 100



EURO SPOT FORWARD AGAINST THE EURO

| Apr 21 | Rate | Yield | Change | Apr 21 | Rate | Yield | Change |
|-----------|--------|-------|--------|-----------|--------|-------|--------|
| 10yr Bund | 101.01 | 4.250 | AA | 10yr Bund | 101.01 | 4.250 | AA |
| 5yr Bund | 101.01 | 4.250 | AA | 5yr Bund | 101.01 | 4.250 | AA |
| 3yr Bund | 101.01 | 4.250 | AA | 3yr Bund | 101.01 | 4.250 | AA |
| 1yr Bund | 101.01 | 4.250 | AA | 1yr Bund | 101.01 | 4.250 | AA |
| 10yr Bund | 101.01 | 4.250 | AA | 10yr Bund | 101.01 | 4.250 | AA |
| 5yr Bund | 101.01 | 4.250 | AA | 5yr Bund | 101.01 | 4.250 | AA |
| 3yr Bund | 101.01 | 4.250 | AA | 3yr Bund | 101.01 | 4.250 | AA |
| 1yr Bund | 101.01 | 4.250 | AA | 1yr Bund | 101.01 | 4.250 | AA |

FTSE Actuaries Share Indices

Produced in conjunction with the Faculty and Institute of Actuaries

| Apr 21 | Rate | Yield | Change | Apr 21 | Rate | Yield | Change |
|-----------|--------|-------|--------|-----------|--------|-------|--------|
| 10yr Bund | 101.01 | 4.250 | AA | 10yr Bund | 101.01 | 4.250 | AA |
| 5yr Bund | 101.01 | 4.250 | AA | 5yr Bund | 101.01 | 4.250 | AA |
| 3yr Bund | 101.01 | 4.250 | AA | 3yr Bund | 101.01 | 4.250 | AA |
| 1yr Bund | 101.01 | 4.250 | AA | 1yr Bund | 101.01 | 4.250 | AA |
| 10yr Bund | 101.01 | 4.250 | AA | 10yr Bund | 101.01 | 4.250 | AA |
| 5yr Bund | 101.01 | 4.250 | AA | 5yr Bund | 101.01 | 4.250 | AA |
| 3yr Bund | 101.01 | 4.250 | AA | 3yr Bund | 101.01 | 4.250 | AA |
| 1yr Bund | 101.01 | 4.250 | AA | 1yr Bund | 101.01 | 4.250 | AA |

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NOTICE

In connection with the privatisation of
ČESKÁ SPOŘITELNA, a.s.

In accordance with Resolutions No. 732 and 194 of the Government of the Czech Republic, dated November 19th, 1997, and March 10th, 1999, respectively, regarding the sale of the state-owned interest in Česká spořitelna, a.s., the Ministry of Finance of the Czech Republic and the National Property Fund of the Czech Republic hereby invite international financial institutions (the "Investors") to give preliminary indications of interest in the purchase of a controlling equity interest in ČESKÁ SPOŘITELNA, a.s.

Such written preliminary indications of interest should include the following:

- Full name of the entity, or entities in the case of a consortium of Investors, expressing preliminary interest, including the name of any controlling entity, a contact address, and names of contact persons.
- Preliminary confirmation of interest in the purchase of a controlling equity interest in Česká spořitelna, a.s.
- Description of the Investor's principal business activities and summary financial statements as of December 31st, 1998, as well as any more recent financial results available.

After receipt of these preliminary indications of interest, certain Investors (to be selected based on the preliminary indications of interest) will be invited to take part in a tender to purchase a controlling equity interest in Česká spořitelna, a.s.

After the approval of the 1998 consolidated audited IAS accounts, an Information Memorandum, including a summary of a proposed restructuring of the loan portfolio of Česká spořitelna, a.s. and a privatisation timetable, will be distributed to these selected Investors. Investors will be asked to submit indicative bids on the basis of the Information Memorandum by July 31st, 1999.

Certain Investors, short-listed on the basis of the indicative bids, will be invited to perform a due diligence review of Česká spořitelna, a.s., and will be provided with the results of an *ad hoc* loan portfolio review that is currently being performed by an independent international accounting firm. Based on the due diligence findings, the Investors will be asked to submit binding bids in order to consummate the sale by December 31st, 1999.

Preliminary indications of interest should be delivered to the financial advisors to the National Property Fund for the privatisation of Česká spořitelna, a.s. - Merrill Lynch, Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY, attention of: Mr. Andrew Gazitua (tel.: 00 44 171 867 2176, fax: 00 44 171 867 2157) or Mr. Constantin Kinsky (tel.: 00 420 2 2162 5547, fax: 00 420 2 2162 5588) - no later than May 7th, 1999.

[April 22nd, 1999]

China-linked companies raise \$253m

By Louise Lucas in Hong Kong

Two China-related companies yesterday raised a total of \$253m, capitalising on the recent rally on the Hong Kong stock market and renewed appetite for China plays.

New World Infrastructure, one of the biggest infrastructure investors in China, raised \$150m through the sale of a convertible bond to AIG Asian Infrastructure Fund, the US\$1.7bn investment fund run by AIG of the US and Citic of Singapore.

The purchase is the largest single investment made by AIG II to date and, according to New World Infrastructure, is one of the biggest equity investments in the Asian region since the onset of the financial crisis in 1997.

Separately, Cosco Pacific, the Hong Kong listed arm of the shipping and ports group, raised HK\$80.1m (US\$10.8m) through a share placement.

The shares were priced at HK\$4.75 each, representing a 7.3 per cent discount to the closing price of HK\$5.15 at midday, when trading was suspended.

The two cash-raising exercises follow a less than successful convertible bond issue by China Merchant Holdings (International), the mainland-backed shipping conglomerate that is listed in Hong Kong.

China Merchants initially set out to sell some US\$120m of five-year CBs last week, but was able to place only half that amount, plus an over-allotment of \$10m.

The scaled-back deal was taken as a signal that demand for "red chips"

remained weak, despite the more bullish sentiment on the broader stock market.

However, the latest CB was carefully structured. NWH's block sale to a single investor follows its parent's unsuccessful efforts to place US\$300m worth of shares through the open market at the end of last year.

New World Development, one of the territory's biggest property developers, was able to sell only a fraction of the placement to committed investors, said bankers.

This is borne out by the share price performance: despite the rally staged by the stock market since then, New World Development's share price is languishing at HK\$18.15, below the issue price of HK\$20.05.

The benchmark Hang Seng index has risen some 33 per cent since the lunar new year in mid-February.

The latest leg of the rally has focused on China plays, especially those reckoned to benefit from China's entry into the World Trade Organisation.

According to Goldman Sachs, the US investment bank, beneficiaries would include port and shipping companies, such as Cosco Pacific and China Merchants, foreign retailers, and foreign financial institutions, such as some of the Hong Kong-based banks.

Bankers expect other companies to consider launching cash-raising exercises on the market. Earlier this week, shares in Hutchison Whampoa and Wharf (Holdings), both ports to telecommunications conglomerates, fell amid speculation of share placements.

EIB kicks off Earnings scheme

NEW ISSUES

By Khazem Merchant and Vincent Boland

The European Investment Bank yesterday kicked off its "Earnings" scheme with an inaugural €2bn bond.

The euro area reference notes bring together all future EIB euro-denominated issues under a single orbit. Previously the EIB, the financing arm of the European Union and Europe's leading issuer of non-government debt, issued on a bond-by-bond basis. Under the euro-denominated benchmark debt issuance programme, a bond of at least €2bn will be issued every quarter.

The 10-year offering will be priced today to yield 13 basis points over the French OAT, slightly wider than comparable bonds by Finland and Austria.

Bankers said a rush for 10-year paper after the recent interest rate cut by the European Central Bank, helped demand for the EIB bond. It is fungible with a €1bn deal issued in December and later increased by €2bn, and forms part of the €15bn due to be issued under Earnings this year.

The rehabilitation of Latin American credit continued with Chile's first global bond offering in a decade.

The 10-year \$500m offering was priced to yield 175 basis points over US Treasuries, tighter than pre-launch talk of 200 basis points.

The spread tightened by five basis points after launch, reflecting Chile's scarcity value and its detachment from Brazil.

New international bond issues

| Borrower | Amount | Coupon | Price | Maturity | Fee | Spread | Book-runner |
|----------------------------|--------|--------|----------|----------|---------|-------------|-----------------------|
| US DOLLARS | | | | | | | |
| Republic of Chile | 500 | 6.875% | 99.854 | Apr 2009 | 0.375R | +175(Nov08) | Chase/Merrill Lynch |
| Den Norske Bank | 300 | (a) | 99.947 | May 2001 | 0.10 | | CSFB |
| Norfolk Capital Canada Ltd | 200 | 5.500% | 100.151R | May 2004 | 0.25R | +37(Nov04) | ABN-Amro |
| Opus Funding Corp (NOR) | 150 | (a) | 100.000R | May 2004 | 0.30R | | DWS International |
| Opus Funding Corp (NOR) | 110 | 9.75% | 99.708 | Apr 2000 | 0.50R | +535(T-08) | Salomon Smith Barney |
| Opus Funding Corp (NOR) | 100 | 5.50 | 100.203R | May 2002 | 0.1875R | +224(Mar01) | CSFB/Warburg |
| Opus Funding Corp (NOR) | 75 | 11.00 | 99.754R | May 2001 | 0.625R | +110(T-08) | Warburg Dillon Reed |
| EURODOLLARS | | | | | | | |
| European Investment Bank | 2bn | (a) | 100.000R | Apr 2009 | 0.15R | +134(Nov08) | ABN-Amro/Paribas |
| European Investment Bank | 500 | 4.25 | 100.000R | Oct 2000 | 0.25R | +565(Nov08) | ABN-Amro/Paribas |
| European Investment Bank | 250 | (a) | 100.000R | Oct 2000 | 0.05 | | Paribas |
| European Investment Bank | 200 | 5.75 | 99.406 | May 2009 | 0.50R | +300(Jul09) | Paribas |
| European Investment Bank | 145 | (a) | 100.000R | May 2004 | 0.30R | | DWS International |
| European Investment Bank | 200 | (a) | 100.000R | May 2004 | 0.30R | | DWS International |
| CANADIAN DOLLARS | | | | | | | |
| GECC | 100 | 5.00% | 99.465R | May 2004 | 0.25R | +21(Sep02) | RBC DS Global Markets |
| AUSTRALIAN DOLLARS | | | | | | | |
| Rabobank Australia Ltd | 100 | 5.00 | 100.36 | May 2004 | 2.00 | | RBC DS Global Markets |

Final terms, non-callable unless stated. Yield spread (over gov't bonds) at launch supplied by lead manager. ^a Floating-rate notes. ^b Interest payment coupon. ^c Based on offer price. Fees shown at 100% of net. ^d 5-min Libor flat. ^e Secured on auto loans originated by Opus. ^f Av. Mkt. 1.5% 5% cleanup call. ^g 1-min Libor +44bp. ^h 1-min Eurobor +44bp. ⁱ \$300m launched on 19/4/98 increased to \$400m. ^j Callable & puttable on 2/5/00 at 98.85% of par. ^k Spread refers to German gov't bonds unless stated. ^l Spread on French gov't bonds. ^m Fungible with €1bn. ⁿ Plus 14 days accrued. ^o Priced today. ^p Fungible with standard. ^q Spread on French gov't bonds. ^r Fungible with €1bn. ^s Plus 14 days accrued. ^t Priced today. ^u Fungible with standard. ^v Spread on French gov't bonds. ^w Fungible with €1bn. ^x Plus 14 days accrued. ^y Priced today. ^z Fungible with standard. ^{aa} Spread on French gov't bonds. ^{ab} Fungible with €1bn. ^{ac} Plus 14 days accrued. ^{ad} Priced today. ^{ae} Fungible with standard. ^{af} Spread on French gov't bonds. ^{ag} Fungible with €1bn. ^{ah} Plus 14 days accrued. ^{ai} Priced today. ^{aj} Fungible with standard. ^{ak} Spread on French gov't bonds. ^{al} Fungible with €1bn. ^{am} Plus 14 days accrued. ^{an} Priced today. ^{ao} 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COMMODITIES & AGRICULTURE

Gold price expected to stay in \$265-\$305 range

By Gillian O'Connor
Mining Correspondent

The gold price is expected to remain in the \$265 to \$305 an ounce range for the rest of the year, and is more likely to bump against the floor than the ceiling, according to Gold Fields Minerals Services, the independent research body.

While its findings contain little comfort for frustrated bulls, they are broadly in

line with GFMS's predictions earlier this year.

Managing director Philip Klapwijk pointed to several factors likely to depress demand, including low economic growth and inflation; the danger that a weak recovery in east Asia would be more than offset by lower demand in other parts of the world; the likelihood that Indian demand would not grow as fast as it did last year; and a reduction in the

quantity of gold being smuggled into China.

The main factor in inflating supply last year was an increase in the amount of scrap - jewellery and other gold products sold and then melted down.

There is likely to be a reduction in scrap supplies this year but an increase in gold hedging by producers, trying to lock in profits whenever the gold price rallies.

However, GFMS believes it is possible new central bank sales could decline.

The research firm argues that the actual quantity of gold mined in a year is not the key to gold supply and hence the gold price: what matters is what happens to existing gold - which it terms "above ground stocks".

Over the past decade an average 36 per cent of total supply has come from this

source, compared with 64 per cent from new mine production, but the origin varies.

Last year, for instance, the important factor was the 75 per cent surge in scrap supplies, thanks to the east Asian crisis. Central bank sales rose by a comparatively modest 10 per cent.

But actual sales by central banks are only one of the ways in which their gold holdings can influence the market. They also lend gold,

usually to mining companies wanting to hedge by selling future production or to take speculative positions, or a combination of the two. Last year, although hedging sales were unusually low, total lending by banks rose.

Hedging means producers can make money even if their production costs are above current gold prices. In fact, cost-cutting and favourable currency moves meant only 2 per cent of mines

operated on a "cash negative" basis last year.

However, earlier hedging operations inflated profits in many cases. The average price of gold in the market last year was \$294 per ounce but companies that had hedged large quantities of their output realised prices ranging as high as \$408 per ounce.

The Gold Survey 1999 costs \$195 and is available from GFMS: tel (+44) 171-539-7820.

Further fall in sugar futures

MARKETS REPORT

By Paul Solman, Robert Corzine and Gillian O'Connor

White sugar futures plunged again yesterday on the London International Financial Futures and Options Exchange, as the bearish fundamentals of high output and oversupply continued to hit the market.

In late trading, the most actively traded August contract was \$171.10 a tonne, a fall of \$6.50 or 3.5 per cent on Tuesday's close. The price has dropped 80 per cent since the beginning of the year, while New York's raw sugar futures are trading at around 13-year lows.

Declines in US crude oil and refined product inventories over the past week helped breathe new life into crude oil prices yesterday.

The June Brent futures contract was quoted at \$18.98 a barrel in late trading on London's International Petroleum Exchange, up 23 cents on Tuesday's close.

The rise came after the US government reported a 3.1m barrel fall in US crude inventories, although similar data from the American Petroleum Institute showed a more modest decline of 2.1m barrels.

Prices of all the base metals traded on the London Metal Exchange, except aluminium, closed slightly lower in late trading.

However, the only one to show any significant change was nickel, which fell 2 per cent to \$1,425.50 per tonne.

Traders pointed to the lack of buying by investment funds and the reversal in mining share prices.

Copper has been the main influence on the other metals, and analysts say it would be worrying if it fell below \$1,500 per tonne. Last night it closed at around \$1,532.50 per tonne on the LME.

Exxon deal bodes well for 2,655km pipeline

By Stephen Wyatt in Sydney

A key \$5.5bn natural gas pipeline, extending 2,655km from Papua New Guinea to Queensland, Australia, now looks set for construction after Exxon agreed to integrate its Hides gas field in Papua New Guinea with Chevron's adjacent Kutubu field.

Both fields now provide adequate gas for the potential execution of long-term contracts. Talks are under way with potential customers such as Comco, which is considering the construction of a \$1.5bn (US\$78m) alumina refinery at the end of the pipeline in Gladstone, as well as Queensland Alumina, nickel producer QNI, and power generators Ergon and Energen.

If initial customers for a year can now be signed, the project is set to proceed.

This gas project is part of a myriad of changes that have occurred in Australia's energy markets since 1993.

Fundamental reforms to the domestic electricity and natural gas markets under the programmes of microeconomic and competition policy reform, are now beginning to have an impact.

They are forecast to trigger increased efficiencies in energy use, according to a

recent report released by the Australian Bureau of Agricultural and Resource Economics (ABARE), the Australian government's independent research agency.

ABARE forecasts that total Australian energy consumption will grow at an average rate of 1.4 per cent a year between 1997-98 and 2014-15. This rate of growth compares with that enjoyed over the past 25 years of 2.6 per cent a year.

Efficiency gains are expected in the electricity generation sector "where a substantial increase in natural gas-fired electricity generation users is likely to result in significant improvements in average thermal efficiencies", said the report.

Natural gas consumption is expected to grow at an average annual rate of almost 4.3 per cent a year up to 2014-15.

However, this will be at the expense of domestic coal consumption. Black coal consumption is expected to decline at an average annual rate of 0.1 per cent a year and brown coal consumption by 0.4 per cent over the forecast period 1997-98 to 2014-15.

The boom in natural gas consumption is expected by ABARE because of exten-

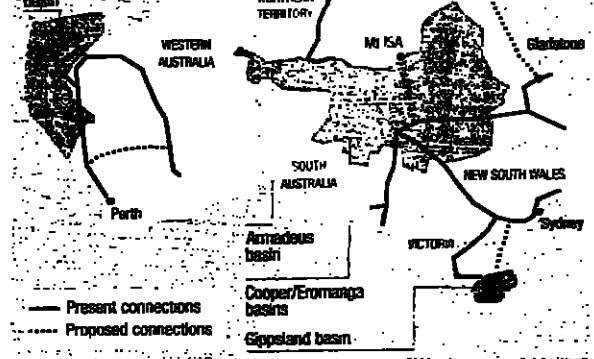
sions to Australia's natural gas pipeline grid, especially in Queensland and Western Australia. Integral to this is the gas pipeline from Papua New Guinea to Queensland.

Also behind the rise in natural gas usage is an expected acceleration in reforms of the gas market in Australia and the maturing of reforms already under way in Australia's national electricity market.

Reforms in the gas market should lead to reductions in the real price of natural gas delivered to customers, improve the competitiveness of gas compared with electricity and open up industry as users of natural gas, particularly the mining, manufacturing and electricity generation sectors, said the ABARE report.

Interestingly, the initial impact of electricity deregulation was to increase the use of coal-fired electricity generation. The initial beneficiaries of change were the incumbent coal-based electricity generators as a result of vesting contracts that set prices to smooth the process of reform. The vesting contract prices were at higher prices than the new competitive wholesale electricity price.

These power generators have been able to aggressively offer electricity and, as a result, operate at increasingly higher levels of capacity.



as a result, operate at increasingly higher levels of capacity.

Now, though, as these early vesting contracts begin to expire and the gas market reforms reduce the price of gas, new electricity generating capacity is likely to be gas-fired.

"Gas-fired electricity generators are smaller, cheaper to establish and more environmentally friendly," said Andrew Dickson, senior economist with ABARE.

Also contributing to the slower rate of energy consumption in Australia is the possibility that future environmental policies will aim to reduce energy consumption and greenhouse gas emissions, said Tom Waring, ABARE's manager of Minerals and Energy Research. Total energy production in

Liffe to revamp commodity side

By Paul Solman

The London International Financial Futures and Options Exchange has launched an initiative to revamp its commodities business.

The exchange will examine opportunities for new products as well as electronic trading of commodities. As part of the plan, it is creating a separate commodities division.

"A lot of time has been spent on financial products recently, and there is now a desire to take a strategic look at commodities," Ian Dudden, head of commodities product development, said yesterday.

He said Liffe had yet to come up with ideas for specific new products, though it announced last year it was considering launching arabica coffee futures to trade alongside its robusta coffee futures and options.

The exchange's other commodities comprise futures and options for cocoa, white sugar, wheat, barley, potatoes and dry bulk cargo.

Liffe has been watching developments in the wake of Europe's recent Common Agricultural Policy negotiations. Mr Dudden said, "There may be opportunities for new agricultural products such as grain futures."

It is also looking at how its Liffe Connect system of electronic trading, currently used for financial derivatives, could be adapted for commodities.

White sugar futures and options were likely to be the first commodities to move to Liffe Connect, Mr Dudden said. White sugar is already traded on its own screen-based system, known as Fast, launched in 1986.

"We're now looking at how it can migrate from Fast to Liffe Connect," he said.

"Commodities have not experienced the same drive for change as financial products in terms of competitive pressures," Mr Dudden said, referring to the competition from European exchanges that forced Liffe to move rapidly to screen-based trading of products such as equity options and gilts.

However, he added, "Liffe has had a good first quarter this year, but it is interesting that white sugar has shown the most consistent growth in terms of volumes over the past few years."

Liffe's initiative follows its creation in November of a "rapid progress group", charged with developing strategies for its commodities business. The group's recommendations were endorsed by the board last month.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amsterdam Metal Trading)

IN ALUMINIUM, 50% PURITY (\$ per tonne)

Date 3 months

Close 1288.00

Previous 1294.50

High/Low 1310.00/1302.00

AM Official 1283.5-4.0

Kerb close 1318.17

Open bid 68.412

Total daily turnover 68.412

IN ALUMINIUM ALLOY (\$ per tonne)

Close 1168.75

Previous 1170.75

High/Low 1192.11/1187.00

AM Official 1170.0-5

Kerb close 1180.95

Open bid 1.584

Total daily turnover 1.584

IN LEAD (\$ per tonne)

Close 519.50

Previous 527.50

High/Low 530.00/525.00

AM Official 520.0-1

Kerb close 527.6

Open bid 7.757

Total daily turnover 7.757

IN NICKEL (\$ per tonne)

Close 5040.50

Previous 5120.25

High/Low 5255.00/5080.00

AM Official 5085.0-100

Kerb close 5140.45

Open bid 23.94

Total daily turnover 23.94

IN TIN (\$ per tonne)

Close 5365.70

Previous 5360.40

High/Low 5450.00/5430.00

AM Official 5380.0-5

Kerb close 5410.15

Open bid 12.856

Total daily turnover 12.856

IN ZINC, special high grade (\$ per tonne)

Close 1011.12

Previous 1024.5

High/Low 1030.00/1000.00

AM Official 1009.5-10.0

Kerb close 1033.34

Open bid 21.897

Total daily turnover 21.897

IN COPPER, grade A (\$ per tonne)

Close 1465.04

Previous 1548.9

High/Low 1543.1/1515.00

AM Official 1460.0-1

Kerb close 1522.33

Open bid 82.585

Total daily turnover 82.585

IN LIME (ANHYDRUS) (\$ per tonne)

Close 28.00

Previous 28.00

High/Low 28.00/28.00

AM Official 28.00-0.00

Kerb close 28.00

Open bid 22.281

Total daily turnover 22.281

IN IRON GRADE COPPER (COMEX)

Sett. Day's price

Apr 68.00

May 68.10

Jun 68.20

Jul 68.30

Aug 68.40

PRECIOUS METALS continued

IN GOLD COMEX (100 Troy oz; \$/troy oz)

Sett. Day's price

Apr 284.0

May 284.0

Jun 284.0

Jul 284.0

Aug 284.0

Sep 284.0

Oct 284.0

Nov 284.0

Dec 284.0

Total 284.0

IN PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Sett. Day's price

Apr 300.0

May 300.0

Jun 300.0

Jul 300.0

Aug 300.0

Sep 300.0

Oct 300.0

Nov 300.0

Dec 300.0

Total 300.0

IN PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Sett. Day's price

Apr 370.0

May 370.0

Jun 370.0

Jul 370.0

Aug 370.0

Sep 370.0

Oct 370.0

Nov 370.0

Dec 370.0

Total 370.0

IN SILVER COMEX (5,000 Troy oz; \$/troy oz)

Sett. Day's price

Apr 517.1

May 517.1

Jun 517.1

Jul 517.1

Aug 517.1

Sep 517.1

Oct 517.1

Nov 517.1

Dec 517.1

Total 517.1

IN CRUDE OIL NYMEX (1,000 barrels; \$/barrel)

Sett. Day's price

Apr 17.00

May 17.00

Jun 17.00

Jul 17.00

Aug 17.00

Sep 17.00

Oct 17.00

Nov 17.00

Dec 17.00

Total 17.00

IN CRUDE OIL WTI (1,000 barrels; \$/barrel)

Sett. Day's price

Apr 17.00

May 17.00

Jun 17.00

Jul 17.00

Aug 17.00

Sep 17.00

Oct 17.00

Nov 17.00

Dec 17.00

Total 17.00

IN CRUDE OIL WTI (1,000 barrels; \$/barrel)

Sett. Day's price

GRAINS AND OIL SEEDS

IN WHEAT LFFE (100 tonnes; \$/tonne)

Sett. Day's price

Apr 71.50

May 71.50

Jun 71.50

Jul 71.50

Aug 71.50

Sep 71.50

Oct 71.50

Nov 71.50

Dec 71.50

Total 71.50

IN WHEAT COT (100 tonnes; \$/tonne)

Sett. Day's price

Apr 257.25

May 257.25

Jun 257.25

Jul 257.25

Aug 257.25

Sep 257.25

Oct 257.25

Nov 257.25

Dec 257.25

Total 257.25

IN MAIZE COT (100 tonnes; \$/tonne)

Sett. Day's price

Apr 224.00

May 224.00

Jun 224.00

Jul 224.00

Aug 224.00

Sep 224.00

Oct 224.00

Nov 224.00

Dec 224.00

Total 224.00

IN BARLEY LFFE (100 tonnes; \$/tonne)

Sett. Day's price

Apr 73.00

May 73.00

Jun 73.00

Jul 73.00

Aug 73.00

Sep 73.00

Oct 73.00

Nov 73.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trunk Prices are available over the telephone. Call the FT Cityline Help Desk on (44 171) 673 4378 for more details.

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Croyline Unit Trust Prices are available over the telephone. Call the FT Croyline Help Desk on (844) 171-873 (537) for more details.

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INVESTMENT COMPANIES - Continued[illegible][illegible][illegible][illegible][illegible][illegible]

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| North Star Inc. | 741 | 752 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | </ |
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| | | | |
|------------------------------|-----|--|--|
| Depreciation | 120 | | |
| Interest | 120 | | |
| Charitable Contribution | 120 | | |
| Gift Tax | 120 | | |
| State Income Tax | 120 | | |
| State Sales Tax | 120 | | |
| State Property Tax | 120 | | |
| State Unemployment Tax | 120 | | |
| State Social Security Tax | 120 | | |
| State Health Insurance Tax | 120 | | |
| State Life Insurance Tax | 120 | | |
| State Education Tax | 120 | | |
| State Other Taxes | 120 | | |
| Federal Income Tax | 120 | | |
| Federal Gift Tax | 120 | | |
| Federal Estate Tax | 120 | | |
| Federal Unemployment Tax | 120 | | |
| Federal Social Security Tax | 120 | | |
| Federal Health Insurance Tax | 120 | | |
| Federal Life Insurance Tax | 120 | | |
| Federal Education Tax | 120 | | |
| Federal Other Taxes | 120 | | |
| Total | 120 | | |

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|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 | 2047 | 2048 | 2049 | 2050 | 2051 | 2052 | 2053 | 2054 | 2055 | 2056 | 2057 | 2058 | 2059 | 2060 | 2061 | 2062 | 2063 | 2064 | 2065 | 2066 | 2067 | 2068 | 2069 | 2070 | 2071 | 2072 | 2073 | 2074 | 2075 | 2076 | 2077 | 2078 | 2079 | 2080 | 2081 | 2082 | 2083 | 2084 | 2085 | 2086 | 2087 | 2088 | 2089 | 2090 | 2091 | 2092 | 2093 | 2094 | 2095 | 2096 | 2097 | 2098 | 2099 | 2100 |
| 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 | 2047 | 2048 | 2049 | 2050 | 2051 | 2052 | 2053 | 2054 | 2055 | 2056 | 2057 | 2058 | 2059 | 2060 | 2061 | 2062 | 2063 | 2064 | 2065 | 2066 | 2067 | 2068 | 2069 | 2070 | 2071 | 2072 | 2073 | 2074 | 2075 | 2076 | 2077 | 2078 | 2079 | 2080 | 2081 | 2082 | 2083 | 2084 | 2085 | 2086 | 2087 | 2088 | 2089 | 2090 | 2091 | 2092 | 2093 | 2094 | 2095 | 2096 | 2097 | 2098 | 2099 | 2100 |

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NY TRUSTS SPLIT CAPITAL - Continued

[illegible]

MOVING - Continued

[illegible]**REAL ESTATE - Continued**[illegible]

SPECIALITY & OTHER FINANCE - Continued

[illegible]

TRANSPORT - Confidential

[illegible]

ADM - Continued

[illegible]**LEISURE, ENTERTAINMENT & HOTELS**[illegible]

DIL & GAS

[illegible]

Interactive Investor is a free website devoted to making the most up-to-date financial information available to you. One visit could make all the difference to your portfolio.

www.iii.co.uk

**REAL ESTATE - Continued**

| | Notes | Price |
|-----------------------|-------|---------|
| Saville Gordon | £ | 70 1/2 |
| Savills | £ | 158 1/2 |
| Scottish Metropolitan | £ | 87 1/2 |
| Seafordbury | £ | 228 |
| Stagfin Estate | £ | 330 |
| Staple Hill Pl | £ | 148 1/2 |
| Strait (A) | £ | 272 1/2 |
| Sumner & Co | £ | 118 |
| 5th County Homes | £ | 44 1/2 |
| Sweeney & Wight | £ | 285 |
| Stockbourne | £ | 1 1/2 |
| Tops Estate | £ | 132 1/2 |
| Tower Centre | £ | 89 1/2 |
| UK Land | £ | 712 1/2 |
| Warner Estate | £ | 204 |
| Warrington Area | £ | 289 |

SUPPORT SERVICES

| | Index | Price |
|---------------------------------|-------|-------|
| AEA Technology | ↑ | 367.5 |
| Adair Framing | ↓ | 428 |
| Aggreko | ↓ | 216 |
| Airtek Graphix | ↓ | 177.5 |
| Airtek WSC | ↓ | 447.5 |
| Altek Acoustic | ↓ | 12 |
| AMS Recs | ↓ | 1084 |
| BPP | ↓ | 312.5 |
| BTG | ↓ | 289 |
| Eastern Mail Services & Express | ↓ | 179.5 |
| Emmision | ↓ | 351.5 |
| Emmision Film | ↓ | 129.5 |
| Emmision Service | ↓ | 1184 |
| Enviro | ↓ | 291 |
| Business Post | ↓ | 448 |
| Card | ↓ | 289 |

TRADED INDEX SECURITIES

| | Mean | Stdev | +SE |
|--|------|-------|-----|
|--|------|-------|-----|

A154

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less stringent rules than the

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Trading volume is end of day accumulation index. Dashes indicate no trades had taken place during the day or the data is not available for these particular securities. Volume shown for American

securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on WPP Hamilton Exchange Form.

[illegible]

- **Charges** since increased or required
- **Interior** since reduced, painted or cleaned
- **Figures** or report omitted
- **Rule 2.7(b)(4)** Overcharge incorporated companies listed on an approved exchange
- **Free annual**/factors report available, see details below
- **Rule 4.2(a)** With incorporated non-listed companies
- **Price** at time of acquisition
- **Indicated** dividend yield after paying upst and/or right issue

| | | |
|---|---|---|
| <p>1 Foreign and foreign-derived income</p> <p>2 Foreign tax credit</p> <p>3 Foreign tax credit limitation</p> <p>4 Foreign tax credit carryover</p> <p>5 Foreign tax credit carryover limitation</p> <p>6 Foreign tax credit carryover limitation</p> <p>7 Foreign tax credit carryover limitation</p> <p>8 Foreign tax credit carryover limitation</p> <p>9 Foreign tax credit carryover limitation</p> <p>10 Foreign tax credit carryover limitation</p> | <p>11 Foreign tax credit carryover limitation</p> <p>12 Foreign tax credit carryover limitation</p> <p>13 Foreign tax credit carryover limitation</p> <p>14 Foreign tax credit carryover limitation</p> <p>15 Foreign tax credit carryover limitation</p> <p>16 Foreign tax credit carryover limitation</p> <p>17 Foreign tax credit carryover limitation</p> <p>18 Foreign tax credit carryover limitation</p> <p>19 Foreign tax credit carryover limitation</p> <p>20 Foreign tax credit carryover limitation</p> | <p>21 Foreign tax credit carryover limitation</p> <p>22 Foreign tax credit carryover limitation</p> <p>23 Foreign tax credit carryover limitation</p> <p>24 Foreign tax credit carryover limitation</p> <p>25 Foreign tax credit carryover limitation</p> <p>26 Foreign tax credit carryover limitation</p> <p>27 Foreign tax credit carryover limitation</p> <p>28 Foreign tax credit carryover limitation</p> <p>29 Foreign tax credit carryover limitation</p> <p>30 Foreign tax credit carryover limitation</p> |
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Equities stage tentative recovery after setback

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

Sentiment in London's stock market, so severely shaken by Tuesday's near 300-point setback, showed signs of a tentative recovery yesterday, with the main indices all managing to record modest gains for much of the day.

But as one dealer said, the market remained "very, very nervous" - this is a dangerous place at the best of times, but especially now. You have to hope that Wall Street will consolidate.

Wall Street's resilient showing overnight, which saw the Dow Jones Industrial Average rally from a mid-session slide to finish marginally higher, and the near-3 per cent rally in the Nasdaq composite, gave much-needed support to European markets at the start of trading.

But domestic economic news did not help the UK market get off to a flying start. A stronger-than-expected increase in average earnings in the three months to February - 4.6 per cent, against predictions of 4.1 per cent - disturbed some

observers who said it lessened the chances of another cut in UK interest rates in the short to medium term.

And unemployment rose by a smaller-than-expected 2,000; the consensus was for an increase of 6,000 with Dresdner Kleinwort Benson going for an even higher figure of 10,000.

The FTSE 100 index made various attempts to shrug off the many small sellers alarmed by Tuesday's weakness. At its best, shortly before Wall Street opened, the blue-chip benchmark had overcome the morning's difficulties and pushed up to

post a 22.3 gain. At its worst, burdened by those worries about domestic interest rates, it had retreated 34 points.

After a valiant struggle Footsie finally succumbed to minor pulses of selling pressure just before the close, which drove the index back down into negative ground to finish 8.8 lower at 6,311.0.

Wall Street's opening gains yesterday gave some hope to London, with the Dow kicking off slightly firmer and nudging higher although never looking too convincing as London trading drew to a close. After

European trading hours, however, sentiment in US stocks tended to improve.

The market's midcaps performed similarly to the 100 index, making minor progress in mid-morning but never really looking likely to build on that. The FTSE 250 closed 9.8 higher at 5,783.4.

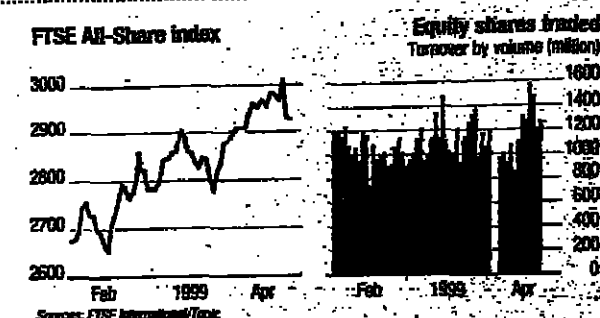
The best of the FTSE indices was the SmallCap, which made modest but consistent ground as the day wore on, eventually closing at a session high of 2,485.5, up 12.5.

Richard Lake, technical analyst at Brewin Dolphin, said: "The FTSE 100 index should attract good support

at 6,250 and I wouldn't rule out 7,000. Neither London nor Wall Street are particularly overbought."

BAT topped the FTSE 100 performance table, responding to an HSBC "short-term trading buy" recommendation. And there was an abrupt about-turn in many of the UK's high-tech stocks which took a beating during Tuesday's sell-off.

Turnover in equities continued at relatively high levels, with the 6pm count reaching 1.3bn shares. The FTSE 100 constituents again accounted for over half the total.



Source: FTSE International/Refinitiv

| Indices and ratios | | | | | |
|----------------------|--------|------|-------------------|--------|-------|
| FTSE 100 | 6311.0 | -8.8 | FT 30 | 2072.8 | -12.8 |
| FTSE 250 | 5783.4 | +9.8 | FTSE Non-Fin plc | 26.7 | 26.1 |
| FTSE 350 | 3021.4 | -2.7 | FTSE 100/FTSE plc | 3029.0 | -4.0 |
| FTSE All-Share | 2827.3 | -1.3 | 10 Yr Govt yield | 4.9 | 4.7 |
| FTSE All-Share yield | 2.3 | 2.3 | Long gilts yield | 1.9 | 1.9 |

| Best performing sectors | | Worst performing sectors | |
|---------------------------|------|--------------------------|------|
| 1 Tobacco | +5.8 | 1 Steel & Other Metals | -6.1 |
| 2 Gas Distribution | +5.4 | 2 Chemicals | -2.2 |
| 3 Food & Drug Retailers | +3.3 | 3 Mining | -2.1 |
| 4 Diversified Industrials | +2.8 | 4 Resources | -1.8 |
| 5 General Retailers | +2.7 | 5 Oil & Gas | -1.7 |

FTSE boost for Nycomed

COMPANIES REPORT

By Peter John and Martin Brice

Nycomed Amersham, the Anglo-Norwegian imaging and biotechnology company, gained 13% to 488p on expectations of a return to the FTSE 100 index.

The company is the highest on the list of reserves to enter the Footsie and Guardian Royal Exchange could leave at the end of the week if its proposed merger with Sun Life & Provincial goes unconditional. GRE added 2 at 375p and Sun Life fell 4% to 525p.

Nycomed shares were also bought ahead of a big US visit today by analysts and institutions from the UK, Scandinavia and the US.

About 30 investors and brokers travelled to the headquarters of Nycomed's life sciences arm in Piscataway, New Jersey.

Chief executive Bill Castelli will outline the company's profile in the area and particularly in genetic sequencing, a crucial element in the creation of the genome, one of the 80,000-100,000 genes that make up the human body. On Friday, Nycomed will be moving to New York to tell its story to the half-dozen biggest institutions there.

BG moved towards the top of the Footsie yesterday as brokers reminded clients that the company produces oil as well as gas.

Merrill repeated its "accumulate" advice and, more significantly, pointed out that more than a third of the company's value represents oil exploration and production.

"The oil price has rallied from \$10 to \$16 a barrel but BG's share price has yet to reflect that upside," said Richard Alderman at the broker.

Merrill said that BG's oil production was equivalent to the value of Enterprise and Lasmo combined, yet the shares were static while Enterprise had risen 80 per cent since the oil price recovery started.

BG gained 21% to 358p yesterday but still unsatisfied. Merrill argued that if the company's existing oil reserves were brought into line with the Enterprise current valuation, the share price would have to rise to 400p.

Meanwhile, the profit-taking that hit the oil sector passed by Enterprise Oil after the exploration and production stock was recommended by Credit Suisse First Boston.

CSFB upgraded its stance to "strong buy" from "buy" following talks with Enterprise management on the group's operational, financial and strategic outlook for the next five years.

The broker raised its net asset value from 375p to 435p a share and, consequently, set a 12-month target price of 540p, up from 400p.

The shares rose 13% to 420p while, elsewhere, BP Amoco fell 33 to £10.87 on turnover of 24m shares.

Shell Transport gained 3 to 437p and Lasmo a penny to 148p.

BAT was the best performer in the Footsie, moving up 39% to 512p as HSBC Securities moved its recommendation on the stock to "short-term trading buy" from "add" with a price target of 549p.

However, the broker is more conservative about the longer-term prospects and says that first-quarter figures on April 29 are expected to be down 10 per cent at £280m because of difficulties in Latin America and Asia, as well as a US squeeze on volumes and margins.

Shares in Bank of Scotland rose 1% to 148p.

A sign of investor enthusiasm for Kingfisher was that Robert Fleming paid between 744p and 752p for 176,000 shares.

Morgan Stanley reiterated its 90p price target for Kingfisher and upgraded its stance from "outperform" to

land shed 40 to 870p after figures that led to selected disappointment.

Mark Thomas at Credit Lyonnais Securities said that the full-year figures were slightly below some consensus forecasts after the bad debt charge rose 22 per cent to £268m.

Marks and Spencer was up 16% at 461p ahead of rumours that an announcement concerning Warren Buffett, the US investor, was in the offing. Technical analysts suggested that the stock was a strong buy on all criteria, following a recent break upwards into relative high ground.

Kingfisher rises

Kingfisher was ahead 25% at 771p as it found support following recent slides in the face of its bid for Asda, which in turn gained 4% to 171p.

Shares in Prudential were lifted 11 to 798p. Warburg Dillon Read gave an upbeat assessment of the company's first-quarter new business figures, raised its recommendation to "buy" from "hold", and set a 90p price target for the stock.

The bid stories among small companies continued, with the latest recipient being Brooke Industrial, the cutting tools and engineering components group.

It was up 12 at 82p after another tools group, Howie Holdings, made public its privately expressed desire to get together.

FTSE 100

FTSE 250

FTSE 350

FTSE All-Share

FTSE 100 Index

FTSE 250 Index

FTSE 350 Index

FTSE All-Share Index

FTSE 100 Index

FTSE 250 Index

FTSE 350 Index

FTSE All-Share Index

FTSE 100 Index

FTSE 250 Index

FTSE 350 Index

FTSE All-Share Index

FTSE 100 Index

FTSE 250 Index

FTSE 350 Index

FTSE All-Share Index

Best and worst performing FTSE sectors

Tobacco

Chemicals

Engineering

Resources

General Retailers

Oil & Gas

Steel & Other Metals

Chemicals

Engineering

Resources

General Retailers

Oil & Gas

Steel & Other Metals

Chemicals

Engineering

Resources

General Retailers

Oil & Gas

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Engineering

Resources

General Retailers

Oil & Gas

Steel & Other Metals

Chemicals

Engineering

Resources

General Retailers

strong buy".

The bounce in US technology stocks overnight was reflected in strong rises enjoyed by UK IT companies, which recovered much of the ground lost in the retreat suffered on Tuesday.

Dixons, which has seen sustained buying on the back of its Freeserve Internet service business, was up 8% at £12.88. Others that benefited included Sema, which rose 2% to 61p.

In the FTSE 250, Logica was the best performer as it rose 4% to 599p, while Arm Holdings was ahead 5% at 705p.

Some of the buying pressure in the cyclical eased as profit-taking moved to the fore. The FTSE 250 index has performed strongly in recent days as cyclical have enjoyed a rally.

Yesterday's worst stock was Pilkington which fell almost 7 per cent to 5% to 79p. Another leading cyclical stock in the MidCap that suffered was British Steel, down 9% at 147p.

Housebuilders were down as investors feared that the strong UK average earnings figures meant the end of falls in the interest rate cycle. Barrat Developments was off more than 4 per cent, or 15% at 359p, while Persimmon lost 10 to 249p.

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FTSE 250

FTSE 350

FTSE All-Share

FTSE 100 Index

FTSE 250 Index

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FTSE 100 Index

FTSE 250 Index

FTSE 350 Index

FTSE All-Share Index

FTSE 100 Index

FTSE 250 Index

FTSE 350 Index

FTSE All-Share Index

FTSE 100 Index

FTSE 250 Index

FTSE 350 Index

FTSE All-Share Index

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFF) £10 per full index point

| | Open | Settle | Change | High | Low | Est. vol | Open int. |
|-----|--------|--------|--------|--------|--------|----------|-----------|
| Jun | 6373.0 | 6337.0 | -10.0 | 6380.0 | 6307.0 | 26564 | 20221 |
| Sep | 6384.5 | 6348.5 | -10.0 | 6391.0 | 6318.0 | 0 | 6887 |
| Dec | 6444.0 | 6408.0 | -10.0 | 6451.0 | 6378.0 | 0 | 1156 |

FTSE 250 INDEX FUTURES (LFF) £10 per full index point

| | Open | Settle | Change | High | Low | Est. vol | Open int. |
|-----|--------|--------|--------|--------|--------|----------|-----------|
| Jun | 5770.0 | 5764.0 | +10.0 | 5775.0 | 5759.0 | 11 | 757 |

FTSE 100 INDEX OPTION (LFF) (£311) £10 per full index point

| | Open | Settle | Change | High | Low | Est. vol | Open int. |
|-----|--------|--------|--------|--------|--------|----------|-----------|
| Jun | 6373.0 | 6337.0 | -10.0 | 6380.0 | 6307.0 | 26564 | 20221 |

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| Jun | 6373.0 | 6337.0 | -10.0 | 6380.0 | 6307.0 | 26564 | 20221 |

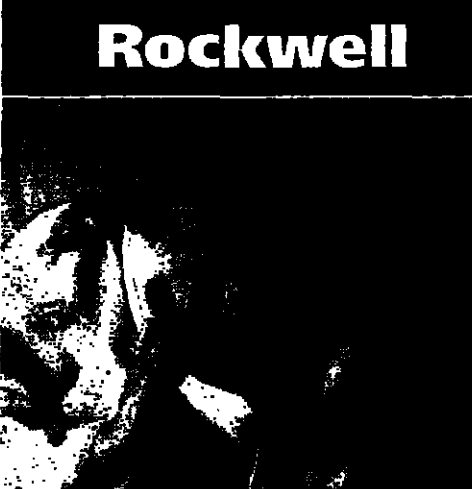
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|-----|--------|--------|--------|--------|--------|----------|-----------|
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FTSE 100 INDEX OPTION (LFF) (£311) £10 per full index point

| | | | | | | | |
|----|--------|-------|-------|--------|---------|--|--|
| 3 | 3.09 | 1.79 | 18.05 | 12.38 | 1630.91 | | |
| 5 | 1.06 | 30.07 | 0.13 | 3.00 | 840.48 | | |
| | Actual | | P/E | % adj. | Total | | |
| | yield% | Cover | | yield | | | |
| 17 | 2.48 | 0.88 | 23.84 | 51.90 | 2008.44 | | |

Highs & Lows shown on a 52 week basis



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Emerging markets:

IFC investable indices
Dollar terms

UNITED STATES OF AMERICA AND ITS POSSESSIONS AND TERRITORIES

| TUESDAY APRIL 20, 1989 | | | | | | | | | | WEDNESDAY APRIL 19, 1989 | | | | | | | | | | DOLLAR INDEX | | | | | | | | | |
|--|--------------|----------------|-----------|------------|----------------------|--------------------|----------------|-----------------|----------------|--|------------|----------------------|--------------|-------------|-------------------|----------------|-------------------------|--------|--------------|--|-------------------|----------------|-------------------------|--------|--------------|-------------|-------------------|--------|--|
| NATIONAL BANKS | | | | | | | | | | MONDAY APRIL 19, 1989 | | | | | | | | | | DOLLAR INDEX | | | | | | | | | |
| Figures in parentheses show number of shares | | | | | | | | | | Figures in parentheses show number of shares | | | | | | | | | | Figures in parentheses show number of shares | | | | | | | | | |
| US Dollar Index | Day's Change | Percent Change | Yen Index | Born Index | Local Currency Index | Local % chg on day | Green D. Yield | US Dollar Index | Starting Index | Yen Index | Euro Index | Local Currency Index | 52 Week High | 52 Week Low | Year ago (approx) | Market | Day's % Chg above/below | YTD % | 52 Week High | 52 Week Low | Year ago (approx) | Market | Day's % Chg above/below | YTD % | 52 Week High | 52 Week Low | Year ago (approx) | Market | |
| Australia (79) | -290.50 | -1.4 | 211.52 | 172.38 | 240.18 | -0.9 | 3.19 | 233.77 | 212.94 | 174.45 | 253.63 | 238.26 | 238.77 | 163.86 | 216.46 | Argentina | 92.40 | -1.5 | -15.9 | | | Argentina | 92.40 | -1.5 | -15.9 | | | | |
| Austria (21) | -188.74 | 0.4 | 173.12 | 147.08 | 179.96 | 0.0 | 1.96 | 188.02 | 215.82 | 140.31 | 180.00 | 188.27 | 185.27 | 225.44 | | Brazil | 266.40 | -0.7 | -7.7 | | | Brazil | 266.40 | -0.7 | -7.7 | | | | |
| Belgium (22) | -354.92 | -2.0 | 305.56 | 265.30 | 331.35 | 331.35 | 0.0 | 3.00 | 333.10 | 270.26 | 339.10 | 339.10 | 339.10 | 339.10 | | Canada | 606.34 | -1.7 | -4.4 | | | Canada | 606.34 | -1.7 | -4.4 | | | | |
| Brussels (21) | -142.01 | -0.7 | 142.01 | 106.15 | 142.01 | 0.0 | 5.00 | 150.39 | 138.49 | 112.16 | 163.36 | 142.01 | 265.86 | 265.86 | | Chile | 431.50 | -0.9 | -4.0 | | | Chile | 431.50 | -0.9 | -4.0 | | | | |
| France (79) | -222.36 | 0.4 | 203.69 | 186.20 | 230.00 | 0.7 | 1.83 | 221.60 | 203.28 | 169.37 | 240.42 | 237.88 | 248.78 | 109.94 | 248.48 | Colombia | 619.48 | -0.8 | -0.8 | | | Colombia | 619.48 | -0.8 | -0.8 | | | | |
| Germany (113) | -419.51 | -2.1 | 394.90 | 318.86 | 453.42 | -2.5 | 1.86 | 425.35 | 394.18 | 215.02 | 438.32 | 409.32 | 409.32 | 409.32 | | Czech Rep. | 139.01 | -0.7 | -17.6 | | | Czech Rep. | 139.01 | -0.7 | -17.6 | | | | |
| Denmark (24) | -940.45 | -0.0 | 587.46 | 749.92 | 810.77 | -0.4 | 1.74 | 871.33 | 820.20 | 792.79 | 792.79 | 719.62 | 820.49 | 425.55 | | Hong Kong | 428.56 | -1.3 | -5.5 | | | Hong Kong | 428.56 | -1.3 | -5.5 | | | | |
| Finland (29) | -256.28 | -0.2 | 256.00 | 191.56 | 244.24 | -2.4 | 1.63 | 261.92 | 240.50 | 186.48 | 250.93 | 259.99 | 325.81 | 236.26 | | India | | | | | | India | | | | | | | |
| France (79) | -398.23 | -0.1 | 398.28 | 288.71 | 71.22 | 840.00 | 0.0 | 1.28 | 398.69 | 369.61 | 369.61 | 369.61 | 369.61 | 369.61 | | Indonesia | | | | | | Indonesia | | | | | | | |
| Germany (113) | -362.80 | -0.7 | 362.80 | 288.71 | 71.22 | 840.00 | 0.0 | 1.28 | 398.69 | 369.61 | 369.61 | 369.61 | 369.61 | 369.61 | | Japan | | | | | | Japan | | | | | | | |
| Hong Kong, China (69) | -52.80 | -0.7 | 52.80 | 42.93 | 62.06 | 300.80 | 0.5 | 0.92 | 50.85 | 45.46 | 57.00 | 57.00 | 321.39 | 60.82 | 16.04 | Malaysia | 94.77 | -0.4 | -7.1 | | | Malaysia | 94.77 | -0.4 | -7.1 | | | | |
| Indonesia (29) | -536.97 | -1.3 | 492.55 | 401.39 | 559.18 | -2.2 | 1.34 | 548.97 | 503.10 | 408.10 | 511.90 | 565.25 | 565.15 | 565.15 | | Philippines | 105.06 | -0.4 | -11.1 | | | Philippines | 105.06 | -0 | | | | | |
| Italy (55) | -106.16 | -1.2 | 152.42 | 124.27 | 225.42 | -2.4 | 1.84 | 152.42 | 124.27 | 124.27 | 124.27 | 124.27 | 124.27 | 124.27 | | Singapore | 192.15 | -0.7 | -10.0 | | | Singapore | 192.15 | -0.7 | -10.0 | | | | |
| Japan (443) | -178.14 | -2.5 | 1494.38 | 1205.63 | 1745.63 | 1687.34 | -2.4 | 1.53 | 1680.31 | 1527.14 | 1238.04 | 1607.88 | 1708.74 | 732.73 | 787.15 | Taiwan, China* | 142.48 | -0.1 | -23.0 | | | Taiwan, China* | 142.48 | -0.1 | -23.0 | | | | |
| Mexico (29) | -497.84 | -1.5 | 496.74 | 372.21 | 469.97 | -0.9 | 2.04 | 555.51 | 490.25 | 369.25 | 577.05 | 470.05 | 469.25 | 469.25 | | Thailand | 71.92 | -0.5 | -13.9 | | | Thailand | 71.92 | -0.5 | -13.9 | | | | |
| New Zealand (79) | -57.66 | -0.6 | 62.06 | 56.51 | 71.22 | 269.01 | -0.6 | 0.68 | 62.06 | 56.51 | 71.22 | 269.01 | 56.51 | 56.51 | | United Kingdom | 48.58 | -12.3 | | | | United Kingdom | 48.58 | -12.3 | | | | | |
| Norway (57) | -354.99 | -0.2 | 101.80 | 82.33 | 118.90 | 292.02 | -0.2 | 1.70 | 110.31 | 101.48 | 82.32 | 118.90 | 292.02 | 101.48 | | Sweden | 703.13 | -1.3 | -13.5 | | | Sweden | 703.13 | -1.3 | -13.5 | | | | |
| Philippines (22) | -110.17 | -1.2 | 194.41 | 165.43 | 272.92 | 272.92 | 0.3 | 1.39 | 211.63 | 198.73 | 161.24 | 218.94 | 218.94 | 218.94 | | Switzerland | 953.12 | -0.8 | -6.8 | | | Switzerland | 953.12 | -0.8 | -6.8 | | | | |
| Portugal (29) | -211.94 | -0.9 | 211.94 | 165.43 | 272.92 | 272.92 | 0.3 | 1.39 | 211.63 | 198.73 | 161.24 | 218.94 | 218.94 | 218.94 | | Turkey | 36.75 | -1.1 | -62.3 | | | Turkey | 36.75 | -1.1 | -62.3 | | | | |
| South Africa (34) | -270.82 | -2.4 | 246.51 | 202.51 | 269.01 | 269.01 | 0.3 | 3.03 | 242.40 | 222.96 | 190.00 | 263.00 | 321.02 | 342.00 | 155.55 | 448.20 | Russia | 28.01 | -0.9 | -68.6 | | | Russia | 28.01 | -0.9 | -68.6 | | | |
| Spain (29) | -340.63 | -0.7 | 220.72 | 173.67 | 218.94 | 218.94 | 0.1 | 1.88 | 347.17 | 334.96 | 271.77 | 428.51 | 428.51 | 428.51 | 291.35 | 348.20 | South Korea | 70.87 | -0.1 | -1.1 | | | South Korea | 70.87 | -0.1 | -1.1 | | | |
| Sweden (41) | -502.57 | -1.4 | 506.86 | 405.05 | 597.10 | 594.85 | -1.5 | 1.96 | 599.05 | 515.89 | 416.18 | 608.30 | 685.00 | 685.00 | 378.18 | 594.85 | Switzerland | 953.12 | -0.8 | -6.8 | | | Switzerland | 953.12 | -0.8 | -6.8 | | | |
| Switzerland (29) | -321.52 | -1.2 | 320.28 | 285.45 | 412.94 | 412.94 | 0.0 | 1.88 | 412.94 | 385.48 | 317.59 | 412.94 | 412.94 | 412.94 | | Taiwan, China* | 142.48 | -0.1 | -23.0 | | | Taiwan, China* | 142.48 | -0.1 | -23.0 | | | | |
| Thailand (29) | -297.74 | -2.5 | 272.28 | 218.94 | 412.94 | 412.94 | 0.0 | 1.88 | 412.94 | 385.48 | 317.59 | 412.94 | 412.94 | 412.94 | | United Kingdom | 48.58 | -12.3 | | | | United Kingdom | 48.58 | -12.3 | | | | | |
| United Kingdom (201) | -401.22 | -1.3 | 401.22 | 285.45 | 412.94 | 412.94 | 0.0 | 1.88 | 412.94 | 385.48 | 317.59 | 412.94 | 412.94 | 412.94 | | United States | 159.25 | -1.2 | -27.2 | | | United States | 159.25 | -1.2 | -27.2 | | | | |
| USA (605) | -658.92 | -1.2 | 494.33 | 402.94 | 532.34 | 532.34 | 1.3 | 1.24 | 531.79 | 496.14 | 396.36 | 576.97 | 571.79 | 559.63 | 330.12 | 439.70 | Yugoslavia | 194.06 | -0.2 | -7.3 | | | Yugoslavia | 194.06 | -0.2 | -7.3 | | | |
| Amsterdam (779) | -749.92 | -1.2 | 405.42 | 356.74 | 518.98 | 518.98 | 1.3 | 1.27 | 474.04 | 436.02 | 353.77 | 514.32 | 405.41 | 407.71 | 347.59 | 416.93 | Atlanta* | 194.06 | -0.2 | -7.3 | | | Atlanta* | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -354.76 | -2.1 | 354.76 | 285.45 | 412.94 | 412.94 | 0.0 | 1.88 | 412.94 | 385.48 | 317.59 | 412.94 | 412.94 | 412.94 | | Boston* | 194.06 | -0.2 | -7.3 | | | Boston* | 194.06 | -0.2 | -7.3 | | | | |
| Barclays (239) | -519.51 | -2.6 | 473.23 | 385.64 | 543.00 | 543.00 | 1.6 | 1.00 | 101.46 | 93.30 | 73.72 | 105.21 | 105.21 | 113.82 | | Charlotte* | 194.06 | -0.2 | -7.3 | | | Charlotte* | 194.06 | -0.2 | -7.3 | | | | |
| Bank of Montreal (140) | -126.30 | -0.4 | 116.85 | 94.47 | 136.61 | 136.61 | 0.7 | 1.27 | 127.42 | 117.20 | 97.08 | 136.61 | 97.08 | 127.42 | 82.88 | 106.37 | Chicago | 226.57 | -0.5 | -22.4 | | | Chicago | 226.57 | -0.5 | -22.4 | | | |
| Bank of New York (141) | -220.89 | -1.7 | 220.89 | 165.43 | 272.92 | 272.92 | 0.3 | 1.39 | 211.63 | 198.73 | 161.24 | 218.94 | 218.94 | 218.94 | | Dallas | 194.06 | -0.2 | -7.3 | | | Dallas | 194.06 | -0.2 | -7.3 | | | | |
| Bank of Pacific (141) | -220.89 | -1.7 | 220.89 | 165.43 | 272.92 | 272.92 | 0.3 | 1.39 | 211.63 | 198.73 | 161.24 | 218.94 | 218.94 | 218.94 | | Denver | 194.06 | -0.2 | -7.3 | | | Denver | 194.06 | -0.2 | -7.3 | | | | |
| Bank of South America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Detroit | 194.06 | -0.2 | -7.3 | | | Detroit | 194.06 | -0.2 | -7.3 | | | |
| Bank of the Americas (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Fort Worth | 194.06 | -0.2 | -7.3 | | | Fort Worth | 194.06 | -0.2 | -7.3 | | | |
| Bank of the West (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Houston | 194.06 | -0.2 | -7.3 | | | Houston | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Los Angeles | 194.06 | -0.2 | -7.3 | | | Los Angeles | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Memphis | 194.06 | -0.2 | -7.3 | | | Memphis | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Minneapolis | 194.06 | -0.2 | -7.3 | | | Minneapolis | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Miami | 194.06 | -0.2 | -7.3 | | | Miami | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Phoenix | 194.06 | -0.2 | -7.3 | | | Phoenix | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Portland | 194.06 | -0.2 | -7.3 | | | Portland | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | San Francisco | 194.06 | -0.2 | -7.3 | | | San Francisco | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Seattle | 194.06 | -0.2 | -7.3 | | | Seattle | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Tampa | 194.06 | -0.2 | -7.3 | | | Tampa | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Washington | 194.06 | -0.2 | -7.3 | | | Washington | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Wichita | 194.06 | -0.2 | -7.3 | | | Wichita | 194.06 | -0.2 | -7.3 | | | |
| Bank of America (779) | -69.99 | -2.2 | 91.72 | 74.14 | 105.06 | 105.06 | 1.5 | 0.47 | 96.32 | 90.73 | 71.88 | 105.06 | 90.73 | 105.06 | 75.16 | | Yonkers | 194.06 | -0.2 | -7.3 | | | Yonkers | 194.06 | -0.2 | -7.3 | | </ | |

NEW YORK STOCK EXCHANGE PRICES

4 pm (GMT+1) April 21

| IN.SECTS (Pan European Sector Index) - Index from EuroBench® | | | | | | | | | |
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STOCK MARKETS

Volatile Wall Street keeps bourses in check

WORLD OVERVIEW

Wall Street's best efforts to wring-foot investors with its highly volatile performance over the previous two sessions put a cap on activity in Asia and Europe yesterday, writes Michael Morgan.

The Dow failed to provide a convincing lead for European bourses again yesterday as an early rally seemed

in danger of running out of steam by the time the bourses were closing. Asia was content to carry over its consolidation into a second straight day after Monday's sharp gains. Seoul was the region's biggest loser with a 3.5 per cent tumble. The mood was soured by a central bank official who cautioned that interest rates had fallen too far, too fast.

In Europe, high-tech shares stepped back into the spotlight as the Nasdaq's overnight rebound set a bullish stage for a number of corporate statements. Germany's SAP, an underperformer in recent months, soared 17.5 per cent as it took the market by surprise with a sharp rise in first-quarter sales. Siemens also found favour with its first-

half figures and full-year forecasts, while in Paris, Cap Gemini and STMicroelectronics rebounded strongly. In contrast, the markets made a sober assessment of the Deutsche Telekom-Telecom Italia merger plan with Telekom extending its losses to more than 13 per cent over five sessions. The renewed demand for high-tech stocks coincided

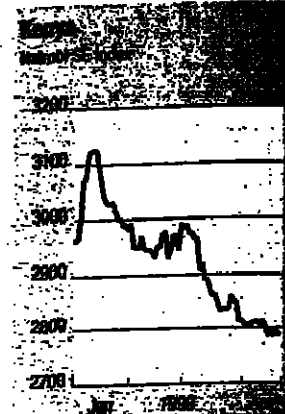
with a study from Merrill Lynch which found a "valuation paradox" in which new internet companies do not pay a penalty in the stock market for the losses they incur in building e-commerce businesses. High valuations gave them an unusually low cost of capital, enabling them to return frequently to the market to obtain inexpensive funds.

In contrast, traditional companies are penalised with shrinking multiples for their losses in starting e-commerce businesses, Merrill says. The result is that these companies' cost of capital has risen, making it more expensive for them to pursue internet strategies. That, in turn, could result in less competition in the internet world.

EMERGING MARKET FOCUS

Foreigners lead Nairobi retreat

The Nairobi stock exchange recorded its highest ever monthly turnover as foreign investors pulled out of east Africa's largest market. Turnover for March reached Ks775m, or 0.65 per cent of market capitalisation, with foreigners conducting 17 per cent of all trades. Foreign traders divested Ks63m, compared with Ks61m in February, with most outflows in Kenya Airways and Kenya Commercial Bank.



The figures compared with Ks614m turnover in March last year (0.5 per cent of market capitalisation), and marked a 50 per cent increase in trading over February 1998. "This is the highest ever in terms of value and volume," said Charles Muhi, a financial analyst at Loita Capital Partners. "Foreign investors are getting out."

Analysts said the strong trading may reflect a move by Kenyans from debt into equity, following the drop in 91-day T-bill rates from almost 27 per cent in March 1998 to under 9 per cent last month. New rules requiring pension funds to balance portfolios also prompted shifts in investments.

"You are seeing larger blocs trading from local institution to institution," said Rick Ashley, managing director of Kestrel Capital. "A new group of local fund managers is coming up, and the retirement benefits act is coming into process."

The NSE index, which charts the top 20 stocks, fell 5.8 per cent in March to 2,816.29, from 2,999 in February, and continued to fall in April, dipping below a four-month support level of 2,500. Some analysts suggested foreign investors might be anticipating a slide in the shilling, although there are doubts that the currency - which has fallen from about Ks60 to the US\$ last year to below Ks65 - will drop much further, given the low demand for forex in Kenya's

Mark Turner

Dow rises as high-techs stage rebound

AMERICAS

Wall Street edged cautiously higher at midday as battered shares in the computer sector continued to recover from Monday's selling and a flood of earnings reports kept analysts and investors busy, writes John Labate in New York.

An early 100-point rise in the Dow Jones Industrial Average was knocked down by late morning, but the market was heading back up again by midday. In early afternoon trading, the Dow was 43.53 higher at 10,492.08. The broader Standard & Poor's 500 index was more than 1 per cent higher at 1,319.62, a gain of 13.45.

It was in the high-tech and small company sectors that investors showed the most confidence, sending the Nasdaq composite up 41.19 or 1.7 per cent to 2,450.83. The Russell 2000 index of small-cap shares rose 8.71 or 2.1 per cent to 424.65.

Shares of Microsoft sold off after the company issued strong results late on Tuesday. The leading software company was off \$1.4 to \$81.4 after Prudential Securities downgraded the shares to "hold".

Specialty software designer Cadence Design, down 59¢ to \$11.4, was the most actively traded stock on the NYSE at midday after the company issued a warning about its earnings and revenue growth for the rest of 1999.

But elsewhere sentiment was on the rise. PeopleSoft surged 12 per cent or \$1.4 to \$13.4 after reporting results. Some of the best high-tech performers were semiconductor producers. Texas Instruments surged 36¢ to

\$106.5 after CS First Boston initiated coverage with a "buy" rating. Lattice Semiconductor rose 14 per cent to \$54 after analysts at Goldman Sachs and Prudential raised their ratings. Computer producers remained sluggish, however, with Compaq Computer down 5¢ to \$22.4 and Dell Computer off 5¢ to \$37.4.

American Express was the percentage leader in the Dow, up 83¢ or more than 3 per cent at \$131.4. But IBM fell 2¢ to \$167 ahead of its earnings report expected later in the day.

Transport shares were higher after earnings releases by major airlines. AMR, parent of American Airlines, gained \$1.4 to \$69.4 and UAL, parent of United Air Lines, was \$1.2 stronger at \$31.4.

In the internet sector Lycos surged 17 per cent or \$12.5 to \$86.5 after the website was named last month's most visited portal on the web for the first time.

TORONTO moved ahead in early trading with another strong start for banks counting weak resource stocks. Lufthansa added 50 cents to \$22.65 after Paribas upgraded from sell to no action. Banks, a weak market lately, rallied with Deutsche Bank gaining \$2.49 at \$48.23.

Cyclical faltered on profit-taking. Degussa Huels came off 10 cents at \$39.50 and BASF slipped to \$40.76 before closing 41 cents firmer at \$42.

Investors stayed cool on Deutsche Telekom as the political debate over the group's plans to merge with Telecom Italia appeared to swing against the deal. Telekom shed 52 cents at \$36.08 for a decline of 13 per cent in five sessions.

PARIS recovered a third of the ground lost during Tuesday's sharp plunge, helped by a timid rally in the battered US high-tech sector. The CAC-40 added 38.33 or 0.9 per cent to 4,291.60.

Under pressure from weak resource stocks, Johannesburg moved lower for the second day running. The all share index ended off 136.2 at 6,786.0.

EUROPE

Most European markets advanced despite a fresh fall in the euro as investors took heart from a steady opening on Wall Street.

Action concentrated in the computer services and information technology sectors, up 12.2 and 4.2 per cent respectively, following a sharp retreat in recent days.

The FTSE Euro100 index, which covers leading companies in the eurozone, closed up 12.91 or 1.2 per cent to 1,054.32. The FTSE Eurotop 100, covering countries inside and outside of the euro, climbed 12.63 to 2,957.01 while the broader FTSE Eurotop 300 settled 6.50 higher to 1,283.36.

FRANKFURT clawed back almost half of Tuesday's 3 per cent shakeout with the Xetra Dax index climbing 74.16 to 5,175.57 to end within a whisker of its best for the session.

Solid first quarter sales gains plus confirmation that revenues would grow by up to 25 per cent for 1999 sent SAP shooting ahead. The stock, which tumbled from

€411 to €256 between January and late March, surged €48 or 17.5 per cent to €321.

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Cyclical faltered on profit-taking. Degussa Huels came off 10 cents at €39.50 and BASF slipped to €40.76 before closing 41 cents firmer at €42.

Investors stayed cool on Deutsche Telekom as the political debate over the group's plans to merge with Telecom Italia appeared to swing against the deal. Telekom shed 52 cents at €36.08 for a decline of 13 per cent in five sessions.

PARIS recovered a third of the ground lost during Tuesday's sharp plunge, helped by a timid rally in the battered US high-tech sector. The CAC-40 added 38.33 or 0.9 per cent to 4,291.60.

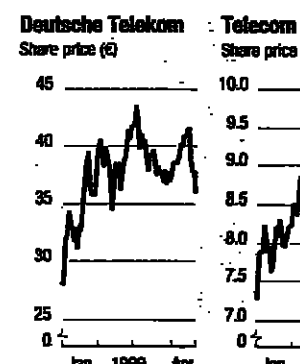
Under pressure from weak resource stocks, Johannesburg moved lower for the second day running. The all share index ended off 136.2 at 6,786.0.

Johannesburg slips again

SOUTH AFRICA

The benchmark resources index fell 4.5 per cent while golds shed 40 or 4 per cent to \$70.6. Industrials gave up 97.3 at 7,366.5.

Financials were little changed, off 31.4 or 0.3 per cent at 9,408.3.



France Telecom was up €1.55 or 2.1 per cent to €74.75 after a 9.5 per cent fall this week. The rise came as negotiations on the Telecom Italia-Deutsche Telekom merger showed signs of dragging on.

Casino, which announced a new purchasing venture with retailer Cora on Tuesday, reached an all-time high, up €2.80 to €38.30, on renewed speculation it could be a target for Wal-Mart.

High-tech stocks reversed their downward course with Cap Gemini up €6.20 to €132.40 while STMicroelectronics rose €3.35 to €98.50 after Goldman Sachs upped its earnings estimate.

Cyclical, which posted strong gains this week, marked a pause, with Saint-Gobain down €5.20 to €165.50.

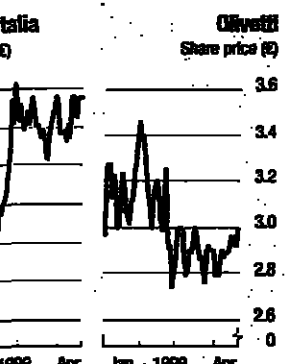
AMSTERDAM recovered strongly, climbing 5.59 or 1 per cent to 555.21 on the AEX index.

Chemicals leader Akzo Nobel surprised investors and analysts with a top of the range first quarter statement. The shares shot ahead to €44.15 before settling at €43.10, up €2 or 4.9 per cent.

In the same sector, DSM gained €3.75 at €93.85.

Other firm features among heavyweights included Philips, up €2.75 at €79.80 and Unilever which gained €1.90 to €63.35. KLM, up more than 20 per cent in seven sessions, fell €1.55 or 5.6 per cent to €28.

ZURICH saw a two way tussle as a sharp, results inspired fall in Novartis was offset by a positive performance in other blue chips. The SMI index edged 4.7 lower to 1,124.7.



Novartis tumbled SFr75 to SFr2.265 as the market registered disappointment with the group's first quarter sales. Heavy foreign selling during the first quarter had pulled the share down from a high for the year of SFr2.918 in January. Roche certificates, often a beneficiary of switching in the sector, put on SFr155 to SFr17.405.

Solid first quarter results, sent ABB, the Swiss-Swedish engineering and technology company, up SFr111 to SFr2.158.

Adeco edged SFr2 higher to SFr732 amid rumours that a block of 700,000 shares had been successfully placed at a second attempt.

The placement, at a price of SFr710 a share, was expected to take pressure off the price.

Sulzer, the industrial, engineering and medical group that reported that new orders in the first quarter

slipped 3 per cent, picked up SFr35 to SFr988.

MILAN turned its attention to the telecoms sector as Telecom Italia and Tim, its mobile phones business, were quoted after two days of suspension.

Telecom said late on Tuesday that it had conditionally approved a mega-merger with Deutsche Telekom. The Telecom shares edged up 0.6 per cent to €9.91 as the market awaited details of the share swap element and registered doubts that the plan still faced obstacles. Tim was 0.7 lower at €5.65 while Olivetti, which has made its own \$680n offer for Telecom, jumped 3.8 per cent to €2.99.

HELSENKI got a boost from Nokia, which tracked high-tech issues in the US. Shares in the heavily weighted company advanced €4.45 or 6.8 per cent to €70.25 ahead of its first quarter results today.

Software company Tieto, which reported a three-fold jump in 9-month earnings, advanced 21 cents to €33.11.

MADRID followed the rest of Europe, with the general index rising 8.59 to 869.74.

The leader by volume was Telefonica, up 83 cents to 41.61 helped by renewed M&A activity in the sector.

Banco Popular was up €1.75 to €64.25, a 12.7 per cent rise in seven sessions, after posting first quarter profit up 4.2 per cent.

Written and edited by Michael Morgan, Jeffrey Brown, Bertrand Benoit and Peter Hall

Mexico City stumbles during volatile trade

MEXICO CITY was lower at mid-session after swinging between negative and positive territory in volatile early trading. The IPC index was down 48.29 or 0.9 per cent to 5,289.35 as Wall Street showed signs of weakness following gains earlier in the session.

SANTIAGO took an unexpected plunge, showing a 3.40 or 2.6 per cent loss to 128.67 at mid-session, mark-

edly underperforming the region's markets. Spanish-controlled Enerzia, which is battling for control of power generator Endesa, was 13 pesos off at 213 pesos. Endesa was down 25 pesos to 255 pesos.

Buenos Aires cemented earlier gains, advancing 4.82 or 1 per cent to \$68.53 on the Merval index, helped by a stronger opening on Wall Street.

IMF growth forecast hits Tokyo

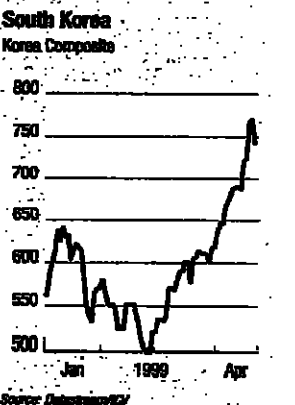
ASIA PACIFIC

News that the International Monetary Fund had revised down its forecast for Japanese economic growth sent shares in TOKYO lower, writes Naoko Nakamae.

The Nikkei 225 average fell 202.09 or 1.21 per cent to finish at 16,495.02 after trading between 16,736.06 and 16,454.34. Other indices were little changed, with the weighted Nikkei 300 index losing 1.4 per cent or 3.66 to 263.17, while the broader Topix index of first-sector stocks rose 1.3 per cent or 17.14 to 1,311.76. Volume was modest at 492m shares, with 894 declining issues and 303 rising.

The steel sector was heavily traded following the release of statistics which revealed that the US trade gap with Japan had widened considerably, and that the US trade deficit had jumped to a record high of \$19.4bn. NKK lost 4 per cent or Y4 to Y95, Nippon Steel 3.8 per cent or Y11 to Y278 and Sumitomo Metal 4 per cent or Y7 to Y168. The three were the day's most heavily traded stocks.

The securities sector was the biggest loser ahead of earnings results from the major brokers today. The sector fell 4.1 per cent. And



the top three brokers were all down, with Nomura Securities falling 4.8 per cent or Y80 to Y1,245, Nikko Securities 4.3 per cent or Y39 to Y640 and Daiwa Securities 2.7 per cent or Y20 to Y710.

In Osaka, the OSX index was down, losing 165.09 to 17,725.07.

SEOUL ran into heavy selling on labour unrest and fears for tighter liquidity. The Kospi index retreated 27.17 or 3.5 per cent to 743.26.

The outbreak of strikes on Seoul's subway system, with a warning from the central bank that interest rates had fallen too rapidly, undermined investor sentiment, brokers said. Daewoo Heavy Industries fell by its daily limit, Won580, to Won5,010.

SINGAPORE advanced as domestic investors piled up on small companies. The Straits Times index finished 32.85 or 1.6 per cent ahead at 1,842.33 despite a lack of interest from institutions and foreign buyers and subdued activity in blue chips.

Shares in telecom company Teledata soared 22 cents or 49 per cent to 66 cents on speculation that a key shareholder could sell its stake to a foreign group.

TAIPEI ignored data showing signs of export recovery. The weighted index fell back 153.58 or 2 per cent to 7,474.16, succumbing to last-minute profit-taking in commodity stocks. The heavily weighted electronics sub-sector slid 1.2 per cent, marking time after recent gains.

BANGKOK reacted negatively to a batch of mixed first-quarter results from Thai banks, giving up 8.18 or 2 per cent to 397.33 on the SET index. The sector lost 12.4 per cent after banks showed continuing provisions for bad loans.

HONG KONG rose as European investors took advantage of Tuesday's correction following a steadier session overnight on Wall Street. However, gains were briefly pared in the afternoon when red-chip container group Cosco Pacific

announced it was making a share placement. But the market rebounded on word that the placement was quickly accomplished.

The Hang Seng index finished 133.98 or 1.1 per cent higher at 12,543.76, moving between 12,382.43 and 12,609.43. Turnover reached HK\$8.2bn, down from HK\$10.2bn on Tuesday.

Analysts said Cosco Pacific was expected to raise about HK\$800m by placing 167m shares at HK\$4.78 each. Cosco's shares were off 30 cents or 5.5 per cent at HK\$5.15 prior to a trading suspension in the afternoon.

JAKARTA ended 5.35 or 1.1 per cent lower at 490.63 on the composite index. Telkom fell Rp175 to Rp8,375 in 84m shares traded.

KARACHI gave up 1.6 per cent on uncertainty over developments in Hub Power's long-running tariffs dispute with the government. On Monday, Hubco said it had signed an agreement with the government not to go ahead with court action.

However, a local newspaper reported yesterday that the power ministry was not a signatory to the agreement and was awaiting clearance from the law ministry. The KSE-100 index turned back from a high of 1,052.75 to close 17.25 lower at 1,032.98.

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